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Business this week

May 10th 2001
From The Economist print edition

Unproductive

Doubts about the sustainability of the gains from the new economy persisted. **America's productivity** fell for the first time since 1995, dropping by 0.1% at an annual rate in the first quarter. America's unemployment rate rose to 4.5% in April, more than analysts had expected.

The **European Central Bank** unexpectedly cut interest rates by a quarter-point to 4.5%. Although inflation has recently been rising in the euro area, the ECB is clearly concerned about the impact of America's economic slowdown. The Bank of England also trimmed interest rates by a quarter-point to 5.25%.

Germany's industrial production unexpectedly fell by 3.7% in March, including a sharp 13.6% decline in building. The fall came after a modest 0.6% rise in February. Manufacturing orders plunged by 4.4%, the biggest decline for nearly a decade. Unemployment also edged up, raising fears that Germany faces recession.

American power

More big power cuts in **California** and talk of $3-a-gallon petrol prices prompted further warnings from the White House about energy shortages. Gray Davis, the governor of California, fancifully urged residents to make big cuts in electricity consumption.

See article: California's summer power problems

After last month's thwarted effort to buy Australia's Woodside, **Shell**, an Anglo-Dutch oil giant, lost out in a $2 billion bid for **Barrett**, an American gas concern. Barrett instead fell into the arms of Williams, a gas-transport company, for $2.4 billion.

Valero Energy, a Texas oil refiner and retailer, agreed to pay $3.9 billion to acquire a local rival, **Ultramar**, subject to regulatory approval. Together, they would be America's biggest refiner after Exxon Mobil.

Reuters

The high-tech low-down

Reuters

Profits at **NTT DoCoMo** rose by 45% to ¥365 billion ($3.3 billion) for the year to the end of March, as Japanese consumers took to i-mode, a mobile technology allowing Internet access. DoCoMo expects to reach 30m i-mode subscribers in a year's time, suggesting that third-generation services, the next step for mobile Internet, may catch on fast.

British Telecom announced its long-expected rights issue of £5.9 billion ($8.4 billion). It will be heavily discounted to help persuade shareholders to take it up. BT also announced the scrapping of its

dividend, and confirmed the demerger of its wireless division and the sale of many assets.

Germany's telecoms regulator gave in to telecoms firms that have taken on huge debts to pay for third-generation mobile-phone licences and decreed that the costs of building and running networks could be shared between licence-holders.

See article: Europe's telecoms giants grapple with debt

Cisco, a network-equipment firm, announced losses in its latest quarter of $2.7 billion, slightly less bad than Wall Street's expectations. John Chambers, Cisco's boss, said that the new economy offered "peaks...much higher and valleys much lower", but admitted that he had not foreseen the depth of the current chasm.

Dell Computer followed industry trends by announcing that it would lay off 4,000 workers, about 10% of its total, over the next six months. Compaq, which lost its crown to Dell as the world's largest PC maker, at least stays ahead in job cutting: it said in April that 7,000 workers would go.

WorldCom raised $11.9 billion in America's largest corporate-bond offering and the third-biggest ever behind Deutsche Telekom and France Telecom.

See article: Europe's telecoms giants grapple with debt

Hands off

Guy Hands quit as head of Nomura's private-equity business in London to set up on his own. Mr Hands, a specialist in buying unfashionable underperforming assets, turning them round and selling them on, hopes to continue managing assets he purchased for Nomura. He will thus remain Britain's biggest pub landlord, with some 5,500 hostelries.

After a long search the Bush administration is nominating a new boss for America's Securities and Exchange Commission. **Harvey Pitt**, a Washington lawyer, will switch from a lucrative position representing companies on Wall Street and instead regulate them for a relative pittance.

See article: Face value: Harvey Pitt, the SEC's new head

Novartis, a Swiss drug company, bought 20% of the voting shares in a home-country rival, **Roche**, for SFr4.8 billion ($2.8 billion). Though Novartis remained coy about its intentions, a fuller union may be on the cards.

General Electric's $40-billion takeover of **Honeywell**, recently cleared by America's antitrust authorities, ran up against the European Commission. The commission extended its investigation, objecting to the "bundling effect": the market power that a combined entity would wield by supplying a complete range of aerospace components. Jack Welch, GE's boss, dismissed bundling as a discredited economic theory.

See article: Europe objects to GE/Honeywell

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Politics this week

May 10th 2001
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Defending America

President George Bush sent senior officials abroad to persuade sceptical allies to support his **missile-defence plan**. At the same time America seemed to abandon its long-standing doctrine that its armed forces should be able to fight two wars at once.

See article: America's defence shake-up goes deeper and wider

Further violence in the **Middle East** claimed the lives of, among others, a Palestinian baby and two Israeli boys. An American-led committee investigating the violence called for an end to Palestinian terrorism and Israeli settlement building.

See article: Stop building Israeli settlements

Macedonia's army shelled ethnic-Albanian villages supposedly held by armed rebels. The government, a coalition of Slav and ethnic-Albanian parties, tried to bring into its ranks the main opposition parties of both communities. Not while the shelling goes on, said the Albanian one.

Winners and losers

Italians prepared to vote in a general election. Probable winner: Silvio Berlusconi's centre-right coalition, now in opposition.

See article: Italy goes to the polls

Spain's **Basques** prepared to vote on May 13th for a regional government. Probable big loser: the one party close to the separatist ETA gunmen, who on May 6th killed a leading conservative politician in Aragon, their 30th victim since early 2000.

See article: Spain's Basque election

Britain's prime minister, **Tony Blair**, called an election for June 7th. Certain winner: Mr Blair and his Labour Party, probably with a big majority.

EPA

See article: The election campaign kicks off

With approval ratings of 80%, there was speculation that **Japan**'s prime minister, Junichiro Koizumi, might call a snap general election.

See article: The new government's hesitant reforms

Despite President Jacques Chirac's objections, **France**'s Constitutional Council approved parliament's decision to prolong its life until mid-June next year. A general election will now take place after, not before, the presidential one due next April and May.

The trial of Morgan Tsvangirai, the leader of **Zimbabwe**'s MDC opposition, who is facing charges of terrorism, was moved to the Supreme Court where it will become a test-case for freedom of expression

in the country.

See article: Zimbabwe's judges

After forcing through changes in his party's constitution to allow him to run for a third term as **Zambia**'s president, Frederick Chiluba puzzled everyone by announcing that he would not be a candidate.

Battle of the nations

America once again blocked **Iran** from joining the World Trade Organisation. But Iran's application will be resubmitted at the WTO's general council in July.

The United States received two snubs from the **United Nations**. First it was voted off the UN's Human-Rights Commission. Then it was ousted from the UN's International Narcotics Control Board.

See article: America ejected from the UN's Human-Rights Commission

The **OECD** will pair next week's meeting of rich-country ministers in Paris with a big forum on sustainable development. Simultaneously, the **European Union**—OECD members all—will hold the UN's third, ten-yearly meeting on poor countries up the road in Brussels.

See article: Liberalisation and poverty

Stanley Fischer, number two at the IMF to Horst Köhler, said that he would step down later this year. Two months ago, Michael Mussa, the chief economist, said he would go. Other senior staff are also said to be thinking of leaving. Mr Köhler's management style has been cited as a possible reason for the exodus.

See article: Stanley Fischer leaves the IMF

War footing

As the United States reviews its policy towards **Iraq**, the commanders enforcing the northern and southern no-fly zones recommended reducing or halting patrols because of the danger of a plane being shot down.

UNITA rebels in **Angola** killed at least 200 people in a raid near the capital, Luanda.

Celebrating victory over Hitler in 1945, **Belarus**'s President Alexander Lukashenka claimed that western countries were planning "a fourth war against us", the third having been in Yugoslavia.

In a defence review, **New Zealand** said it was not directly threatened by any country and would scrap its air-combat wing, which consists of 17 ageing Skyhawk jets.

Trouble at the top

EPA

Problems for **Brazil**'s president, Fernando Henrique Cardoso. One minister resigned over corruption allegations. Another stepped down to reclaim his seat in Congress and so vote against an opposition plan for a sleaze inquiry. Political turmoil and a looming energy crisis helped weaken Brazil's currency.

See article: Political turbulence in Brazil

In an effort to save **Indonesia's president**, Abdurrahman Wahid, from impeachment, Cabinet members urged him to share more power with his vice-president, Megawati Sukarnoputri.

See article: Indonesia's huge Islamic organisations

Over 130 football fans died in a stampede after violence at a **football** match in Accra, Ghana's capital. Last month, 43 died in South Africa and seven in Congo after similar incidents.

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Timothy McVeigh's execution

The rights and wrongs

May 10th 2001
From The Economist print edition

Should America kill the Oklahoma City bomber?

Get article background

"I WENT out to Charing Cross to see Major-General Harrison hanged, drawn and quartered," Samuel Pepys casually noted in his diary on October 13th 1660, adding that "the general looked as cheerful as any man could do in that condition." The execution next week in Indiana of Timothy McVeigh by lethal injection will be a less bloody, more private affair; it will be witnessed by "just" 30 people, with a further 250 relatives of his victims watching on closed-circuit television. But the event already has the grisly carnival atmosphere of a public execution. It harks back to a time when the taking of a criminal's life was a spectacle, an event children begged to go to, which diarists attended after a good lunch and where soldiers were needed to hold back the onlookers.

Some 1,600 journalists are descending on the one-prison town of Terre Haute. T-shirts are on sale. An attempt to broadcast the event on the Internet seems to have failed. The TV networks are squabbling about which correspondents will witness the deed. A famous novelist will be in attendance, invited by the Oklahoma City bomber, who has already chosen his last words ("I am the master of my fate; I am the captain of my soul") from W. E. Henley's poem "Invictus".

Inevitably, the ghoulishness of Terre Haute has become an issue in itself. Broadcasting the death of anybody seems grotesque, even pornographic. On the other hand, execution is not something that a government should do in secret. For it is the killing, not the recording of that killing, which is the real issue. Should Mr McVeigh be killed?

For many people on both sides of the debate, the answer is alarmingly simple and instinctive. In the United States, where most people support the death penalty, barely one in four would spare a man who killed 168 Americans—20 more than were killed by Saddam Hussein during the whole Gulf war. By contrast, some Europeans have already seized on the circus in Terre Haute as a symptom of what they see, rather arrogantly, as the new American barbarism (see article). While most other civilised countries have forsaken the death penalty, the United States has increasingly resorted to it, placing itself alongside countries such as Congo, Iran and China.

A guilty monster

Both sides are rushing to judgment too quickly—particularly the critics. *The Economist* has long disliked America's attachment to the death penalty. But Mr McVeigh is hardly a typical victim of that system. Indeed, he might have been designed to test the faith of abolitionists everywhere.

At least five of the main arguments against the death penalty in America fall away in the case of Mr McVeigh. First, there is no question that he murdered 168 people. He has admitted it; indeed, he has boasted of it. Second, although nine in ten people on death row cannot afford their own lawyers, there is no evidence that Mr McVeigh has been poorly represented in the courts. There are none of the usual tales about drunk lawyers or uncalled witnesses. Third, Mr McVeigh, as many of his supporters never stop reminding people, is white, so there is no question of discrimination (blacks account for one in three people executed). Fourth, while some of the people that America has executed more properly belonged in a psychiatric ward, Mr McVeigh is not clinically insane or ill—just evil.

Indeed, the fifth point is the crime itself. Mr McVeigh is not being executed for a robbery that went wrong or a crime of passion. He cold-bloodedly killed 168 people, the worst act of terrorism on American soil. The Oklahoma City bomb was a genuine outrage; months later, some body parts had still not been linked to any known victims. Mr McVeigh has shown no remorse. Quite the contrary. He boasts in a new book about delaying his bomb till just after 9am, to get as many victims as possible. He has dismissed the 19 children under six who were killed in the blast as “collateral damage” in his war against the federal government.

For some abolitionists, all that is beside the point. The state, they argue, should never execute anybody, ever. We disagree. *The Economist* would, for example, have executed the Nazi chiefs at Nuremberg. As John Stuart Mill argued, the death penalty is not inherently illiberal; when the state executes a murderer, it is not because it holds life in low regard but precisely because it holds the lives of those that the murderer dispatched in such high regard. All punishment contains an element of retribution, as well as representing a statement by society. Execution is the strongest statement you can make.

Cruel, unusual

The trouble with not being an absolutist, however, is that you then have to find somewhere to draw a line. Where, between Hitler and Mr McVeigh, should you draw it? There is no easy answer. Certainly execution, given the enormity, irreversibility and cruelty of the act, ought to be highly unusual, especially in peacetime. Killing of any sort brutalises society. The death penalty does not work as a deterrent and, as a form of revenge, it is crude, to say the least.

Then, there are the precedents. Accept Mr McVeigh’s death, and how could you refuse the noose for the Libyans who planted the Lockerbie bomb (which killed more people), at least once you were sure it was them? Or those Palestinian youths who bomb Israeli buses? Or a serial killer such as Harold Shipman, a British doctor who murdered hundreds of his patients? Sadly, Mr McVeigh is not all that unusual. His crimes, terrible though they were, fall a long way short of Hitler’s.

Clear lines are hard to draw. But there is one practical reason to spare Mr McVeigh. It would deprive him of what he aspires to most: martyrdom. Had he been left to rot in jail, there might have been the occasional documentary, but no media circus. He would not appear heroic; he would not be an inspiration to anybody. He would certainly not be boasting about being the master of his fate.

It is not hard, even for opponents of the death penalty, to understand America’s need to take vengeance on Timothy McVeigh. But next week’s spectacle in Terre Haute is merely giving an evil man the notoriety he craves.

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America and the UN

Shameful all round

May 10th 2001
From The Economist print edition

Voting the United States off the UN's Human-Rights Commission is bad for human rights, bad for all concerned

AN EPISODE that does credit to no one: that is not often the judgment when those involved are countries from east and west, north and south, rich and poor, democratic and autocratic, yet it seems the proper verdict on the vote last week that removed the United States from the UN Human Rights Commission. Not that the Human-Rights Commission is such a splendid outfit. It sets standards, takes stock of shortcomings, appoints inspectors and passes resolutions; but its record on upholding human rights is patchy at best. So why is America's defenestration so shameful?

First, because if the commission's record were ever to become less patchy it would be thanks to countries with a genuine belief in human rights, notably the United States. The reason the outfit is so feeble is that its members include several countries best known for their brutality and contempt for the rule of law. Among the commission's new members this year were Algeria, Congo, Kenya, Libya, Saudi Arabia, Syria and Vietnam. Joining them now will be Pakistan, Sudan and Togo.

Second, because America's defeat came partly at the hands of European "friends". Some European countries, such as Sweden, which with Austria and France was elected to the seats reserved for the West, have been staunch in fighting for human rights. But some, such as France, have been all too ready to swallow their principles when these have seemed to clash with commercial advantage. This has been especially true where China is concerned. The United States, by contrast, has in recent years taken a conspicuously firm line with China in the commission, giving the body some of its most marked successes—and making the Chinese particularly cross.

Third, because the United States itself was far from blameless in the affair. Its embarrassment was no doubt partly a consequence of incompetence. It has no ambassador at the UN at present, and even when one is in place he is often no match for the professional diplomats from other countries who know how to get their way in international organisations. But any American ambassador would have had his work cut out last week. Even many of America's allies have been alarmed at the apparent disdain for multilateralism of the new administration. The humility that George Bush preached as a candidate—"If we are an arrogant nation, they will resent us," he said—seems to have got lost in the scramble to reject the Kyoto treaty on climate change, the treaty to set up a world criminal court, the Anti-Ballistic Missile treaty, the effort to make cheap AIDS drugs available in poor countries, a convention on disappearances, and so on. If so many traditionally friendly countries failed to come to America's support, that was partly because America itself has been unnecessarily peremptory.

The most regrettable consequence of the episode is that it has played straight into the hands of the right-wing members of Congress who like to believe that the UN and all its doings are resolutely opposed to the United States. Never mind that this outfit, sitting in Geneva and reflecting not the UN secretariat but the governments of some 53 members, has little to do with the UN proper. Plenty of far-right Republicans are already tempted to seize last week's vote as a chance to throw out the deal, negotiated in the final days of the Clinton administration, whereby America at last coughs up its unpaid dues in return for a cut in its UN contributions. That would set America's relations with the UN on a downward spiral once more—to the detriment of even more than human rights.

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Tony Blair's challenge

Britain's election drama

May 10th 2001
From The Economist print edition

The conclusion may look foregone, but Tony Blair has much to prove in the run-up to June 7th

THE script for general-election campaigns is supposed to be full of heroic phrases, inspiring speeches, enthusiastic audiences and all the usual noises off. "Once more unto the breach," cried Britain's prime minister this week, as he dutifully announced the least surprising start to a campaign for years. "Off to the beach, dear friend," the voters might well have replied, weather permitting, for the outcome of this election hardly looks in serious doubt, and hardly looks likely to enthuse the audience. That would be a pity, in any democracy. But it would especially be a pity for Tony Blair.

Usually, the reason Mr Blair's Labour Party gives for fearing "apathy and cynicism", for wishing, with Shakespeare, to "stiffen the sinews, summon up the blood" is that complacency might lead Labour voters to stay at home rather than bothering to vote, and this might, horror of horrors, permit the Conservatives to win. One joy of elections does, it is true, lie in the fact that upsets can never entirely be ruled out. But for the Tories to win would not just require an upset; it would require a catastrophe (the Tory word for which would be "miracle"). Complacency might indeed lead Labour voters to stay in bed. Yet Conservative voters also feel apathetic, distinctly unenthused by their own leader, William Hague. They may well join the Labour voters in bed, metaphorically of course.

No, the real reason why Mr Blair needs three weeks' worth of sinew-stiffening lies in his own government and his own first term in office. He won the election in May 1997 promising to be "radical", to build a "better Britain". He won by a landslide in terms of parliamentary seats, but not in terms of votes; despite all the hype and supposed eagerness for change, fewer people voted for Labour in 1997 than had elected John Major's government at the previous poll in 1992. Turnout dropped on all sides but especially among Tory voters, and tactical voting by Liberal Democrats and Labour supporters helped drive out many Tory MPs. The first Labour government in 18 years, with the biggest parliamentary majority of the 20th century, nevertheless had no strong, popular mandate.

It governed accordingly. Mr Blair's first term has been characterised by cautious, mostly competent incrementalism, not by boldness either of vision or action. There are exceptions, to be sure: granting independence to the Bank of England, a move the Tories ought to have made years earlier; devolution of power to Scotland and Wales (albeit not much); an ambitious "welfare to work" programme of benefit cuts and job subsidies. But they prove the rule.

That rule is no bad thing. Given that the purest, simplest thing to ask of government is that it should do no harm, Labour has not done badly. It has presided over a strong economy, and has not messed that up with reckless fiscal policy. It has steered schools more in the right direction than the wrong one, by sticking to strict testing and inspections, as well as performance-related pay for teachers. It has trimmed social-security spending much as its Tory predecessor did. Like that predecessor, it has struggled to keep the National Health Service's head above water, but has not fared any worse at the task and has now thrown some more money at health.

Yet those lukewarm judgments point to the problem. To repeat, Mr Blair and his government have been cautious, competent and (note that this is a term of praise) mildly conservative. They have not been bold or radical, despite frequent claims to the contrary. Most important, they have not been bold despite Mr Blair's aggressive speeches about confronting "the forces of conservatism". In particular, in the two most important and sensitive areas of public policy, education and health, those forces have barely been confronted at all. Mr Blair, it seems, does not actually like rocking any boats. He does not like annoying or offending people. He wants to be liked. That served his purposes in his first term, one of which was to

be re-elected on June 7th. It will not serve him so well in the second term.

Show us your stomach for the fight

The temptation, as for any politician, will be to carry on being liked during the next three weeks. Offending people will not be high on his advisers' list of objectives. But he does need to enthuse people, to build momentum, to earn a mandate. For he will need to offend people during his second term—at least, he will if he wants to leave office, still a young man, having achieved something to be proud of. Not as disastrous as previous Labour governments: that is not exactly the line Mr Blair is going to want in the history books. And nor should he.

As he has said, time after time, the second term will be about delivery. But the question is whether it will just be about delivering more money to public services that are run in more or less the same way as before, in the hope that they might improve; or whether it will be about reforming those public services in order to make improvement a great deal likelier. If it is merely the first, few will be offended but, in the end, many will be disappointed. Their hospitals and their doctors' surgeries will still be worse than those in France or Germany. So will their schools. Tolerance of continuing problems in other public services, such as transport, will wear thin. It will no longer be possible to blame it all on 18 years of the Tories. There will have been eight years of Labour to blame it on.

If the second-term debate is to be about more than whether to offend the *Sun* by holding a referendum next year on joining the euro, and about more than merely how much money to devote to public spending, Mr Blair is going to need to drum up support, as well as nerve. To shake up Britain's schools, he would need (and could get) the support of parents when he takes on the teachers. To shake up the NHS, he would need (and could get) the support of patients. Though it is a less popular issue, he could also use support among voters to help complete the task of reforming Britain's constitution by replacing the House of Lords and making the voting system fairer.

Will he? No doubt, only Mr Blair can lose this election, given that he starts it with such a commanding lead. But also, he is the man with the most to prove, partly in this campaign, certainly in his second term. He must now, like Henry V, imitate the action of a tiger.

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Our new design

May 10th 2001
From The Economist print edition

Dear Reader,

There are few things more boring than long articles by editors about how their redesigns are going to produce a sharper, more modern, publication, brightening readers' lives and furthering world peace. So I will keep this short. We have introduced a new design for *The Economist* this week, the first full redesign since 1987. The main elements are:

Full colour on all editorial pages, used in a cool, restrained way in pictures, drawings, charts and maps to serve our basic purpose, namely clear description and analysis of an often confusing and complicated world.

More navigational information, to help readers find their way around the publication more easily—a double-page spread for Contents; extra contents lists for each section; a red band at the top of the article to signal the opening of each section; flytitles and short summaries on articles to show at a glance what each piece is about.

A new typeface (Officina) for cover headlines and all navigational information; a redrawn version of our main typeface, Ecotype, to make it easier to read.

A new, stand-alone, cartoon on "The world this week", giving our caricaturist's view of an international event or theme.

Good design, like good writing, should blend into the background; it should be the servant of editors and readers alike, not their master. After a few months, I hope you will see our new servant as merely a natural part of *The Economist*. But while the design is new and noticeable, it would be useful to hear your views about it. Please write to me at any of the addresses listed on the new contents page, or send an e-mail to **be@economist.com.**

Yours faithfully

The Editor

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Israeli settlements

Stop building, please

May 10th 2001
From The Economist print edition

The Mitchell report links Palestinian violence to Israeli settlement-building

AP

THE whole point of planting settlers in Israeli-occupied land was to make it hard ever to return this land. The settlers in Sinai were uprooted in the overwhelming interests of an Israeli-Egyptian peace treaty, but in Syria, the West Bank and Gaza they stay on, and are encouraged to multiply, even when peace with the true owners of these territories is being sought. This is a glaring contradiction that successive Israeli governments have declined to recognise. Now, to Israelis' great dismay, the illogic is being hammered home to them, not by Syrians and by Palestinians, but by an American-led international committee representing a wide consensus.

The committee, chaired by George Mitchell, the former senator who has striven for peace in Northern Ireland, was set up last October to investigate the latest Israeli-Palestinian crisis. Its comments and recommendations are admirably even-handed. Careful not to blame either side for the start of the violence, it concentrates on ways of rebuilding confidence, and so getting talks going again. And here it has startled the Israelis by the prominence it gives to settlements. The Palestinian Authority, it says, should take "all measures to prevent terrorist operations and to punish perpetrators." But then, in the next breath, it says that "the cessation of Palestinian-Israeli violence will be particularly hard to sustain unless Israel freezes all settlement construction activity".

The 200 or so Jewish settlements, which vary from fair-sized towns to hill-top outposts, are scattered profusely, yet strategically, over the West Bank and Gaza, forming a barrier between Palestinian towns and villages, and between East Jerusalem and its West Bank hinterland. Throughout the seven years of the Oslo peace process, when Israeli governments were presumed to be pursuing ways of removing some settlements and consolidating others, the number of housing units grew by more than 50%, though many houses and flats already stood empty. In addition, special settler roads were built, destroying chunks of Palestinian land as they plunged their way through orchards and farms.

Palestinians saw this expansion as clear evidence that they would never get even the small portion of mandated Palestine that they had agreed would be their state. When the al-Aqsa uprising against Israel's occupation took hold, settlers were seen as the enemy no less than soldiers. They were soon in real danger and, to protect them, yet more roads and buffer zones were created, at the expense of yet more land. Violence has been answered with ever greater violence: the victims this week included a Palestinian baby and two Israeli boys; Israeli commanders now have umbrella permission to storm their way into Palestinian areas. To end this bloody cycle, says the Mitchell report, the Palestinian Authority must stop its men from shooting and terrorism, and the Israelis must stop the provocative ballooning of settlements. It might have said that all building should have been stopped long since, and existing settlements handed over to the rightful owners of the land.

Ariel Sharon, who is committed to the settler movement at its most ideological, has summarily rejected the committee's recommendation. But the prime minister has promised to restore security to the Israeli people, and in that promise, at least, he is sincere. However distasteful it may be for him, he should take cognisance of the fact that most of the world, including Israel's closest friends, see an end to settlement building as part and parcel of an end to ever escalating violence.

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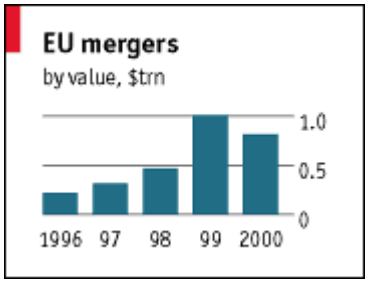
Europe's capital markets

Takeover troubles

May 10th 2001
From The Economist print edition

The disarray over the EU's takeover directive bodes ill for completion of its single financial market



BARELY a year has gone by since Britain's Vodafone acquired Germany's Mannesmann. The success of this huge hostile takeover, the outcome of which was settled not by governments but by shareholders in the two companies, was widely hailed as a sign that Europe's single capital market was starting to deliver its promised benefits. More cross-border mergers would surely follow, speeding up the long-overdue restructuring of Europe's economies.

Such optimism now seems to have been a bit premature. There have been plenty of European mergers, but remarkably few have been cross-border. And this week the German government confirmed that it is now opposed to a key article in the European Union's proposed takeover directive, which would stop incumbent managements from employing "poison pills" and other fearsome defences against a bidder without first seeking the consent of their shareholders. German Euro-MPs had already succeeded in stripping this provision from the draft text; but it had been hoped that a unified Council of Ministers, backed by the European Commission, would reinstate it. Now, unless the other member countries are willing to outvote the Germans and the parliament changes its mind—neither of which looks likely— there is every chance that the takeover directive will fall by the wayside.

The Germans argue that other countries, notably the United States, permit the use of poison pills and similar devices, and that it would be wrong to expose Europe to unfair, one-sided competition. It is true that American corporate law is too tolerant of poison pills, which is one reason why hostile takeovers have become rarer there. But America's strong shareholder culture and fondness for litigation make it harder than it would be in Europe for managers to employ these devices. Besides, who benefits from such protection against outside bids? Not shareholders, who lose their chance to vote on a change of management; and not employees or other stakeholders, whose interests may well be better served by new and more dynamic ownership. The only beneficiaries from obstacles to a market in corporate control are managers.

This week, the European commissioner responsible for the takeover directive, Frits Bolkestein, called its possible demise a "tragedy". That may be an exaggeration, but there are other reasons for fretting over the directive's fate. For it has serious implications also for the unfinished agenda of creating a single European capital market.

The directive has, after all, been a tortuous ten years in the making. Such long delays were behind the proposals in a recent report by a group of "wise men", led by Baron Alexandre Lamfalussy, for a streamlined procedure for the adoption of EU directives on financial services and securities markets. The Stockholm summit endorsed the Lamfalussy plan. But the parliament is resisting it, because it fears a diminution of Euro-MPs' legislative role. In any case, even streamlined procedures will not work if governments of such big countries as Germany balk at opening up their markets.

European shareholders, arise!

Not everything is moving in the wrong direction in Europe. Companies are becoming more sensitive in their treatment of minority shareholders. A recent court decision in France overturned the Schneider/Legrand merger because it discriminated against small shareholders. The spread of share ownership, and especially the growing influence of foreign investors, is spreading an equity culture across Europe (see article). The single European currency is also increasing competitive pressures right across

the continent.

Yet too many barriers to the operation of a Europe-wide capital market, and so to the consolidation of a powerful European equity culture, remain. A big chunk of the potential economic gains from both the 1992 single market and the arrival of the single European currency depends on the liberalisation of the EU's financial markets. Time to finish the job.

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Conservation

Saving the rainforest

May 10th 2001
From The Economist print edition

Tropical forests need protection—and proper exploitation is the way to deliver it

Get article background

USE it or lose it. The mantra is applied as much to the rainforest and the rest of the natural world as to the artificial. But exploitation does not have to involve destruction. And there are powerful reasons for seeking to avoid the destruction of wilderness and the concomitant extinction of species.

The strongest argument for conserving biodiversity is to protect the "ecosystems" on which humanity itself depends. Diversified ecosystems protect watersheds, local rainfall, food supply and soil. The Amazon ecosystem is so vast that it creates its own climate. Most rainfall is recycled, and the forest affects light reflection, cloud formation, regional rainfall and temperature. Most important, the rainforest is also a bulwark against global warming. You cannot chop it down or burn it without running large climatic risks.

From the American mid-west to Bangladesh to Mozambique, the costs of deforestation are now being felt in the form of altered climates, droughts, flash floods, landslides and soil erosion. The result can be human and economic suffering on a grand scale. Once created, such suffering is not easy to cure. In the long run, reforestation may be the only answer, but plantations do not function as well as a diversified forest that is the product of several thousand years of evolution.

Ten years ago, few people appreciated the effect of wide biodiversity on ecosystems. But it is not hard to grasp the case for keeping more species. Having more species in an ecosystem gives it more stability, allows it to retain more nutrients and makes it more productive. There is an analogy with the diversification gains to be had from spreading an investment portfolio. Species, like shares, differ from one another, and they respond differently to external events. The more species, therefore, the less volatile and unstable the ecosystem. Moreover, different species specialise in particular niches that make the best use of different resources and of changes in, say, soil acidity and temperature.

Some ecologists reckon that the rate at which species are being lost is so high that, if it continues, palaeontologists of the future will look at the fossil record now being laid down and liken it to earlier mass extinctions such as the one that killed the dinosaurs. Those previous extinctions are thought to have been triggered by external shocks such as an asteroid impact or a huge volcanic eruption. But how much of each previous extinction—in which around 95% of all species were lost—was caused directly by the shock, and how much by a subsequent unravelling of the ecosystem due to the loss of specific habitats and species, remains unknown. What seems certain is that finding out by repeating the experiment will be a risky and unpleasant experience: people, for all their artificial cushions, are part of the ecosystem too.

There is also opportunity cost to consider: the things extinction could make harder. All crops, garden plants and domestic animals have wild ancestors. Corn, rice and wheat alone provide 60% of the human food supply. Their continued viability depends on the maintenance of the genetic diversity of their ancestors, which alone makes possible the breeding of new strains that are resistant to evolving diseases and pests.

For many rich-world conservationists the value of preserving biodiversity is more a matter of sentiment and aesthetics than of pragmatism. People do not burn Picassos or cathedrals, so why should they burn the Amazon rainforest? There is nothing wrong with this question—economic arguments sometimes come second to ethical or aesthetic ones—but it does need to be recognised that all such "external public goods" have to be paid for, even if the cost comes only in benefits forgone.

From greenery to greenbacks

Fortunately, the world's growing understanding of the value of biodiversity is coming at the same time as the discovery of ways to make it pay without destroying it. The new approach is, with fits and starts, being adopted in Brazil (see our special report). This has included the removal of subsidies and of perverse tax incentives that encouraged otherwise uneconomic forest destruction. It also identifies the forest as a sustainable resource that can yield a crop rather than being a one-off "mine" for timber that, when cleared, is largely unsuitable for farming. New systems of reduced-impact logging appear to be just as feasible as conventional reckless logging, while being far less damaging. The environmental sensibilities of western consumers are also being co-opted by selling, at a premium, forest products from areas that can be certified as following good management practices.

Another encouraging change arises because Brazil, though not exactly a rich country, is no longer a poor one. A conservationist movement is stirring among the new middle classes, and beginning to win some battles. One gram of patriotic pressure is often worth a tonne of well-meaning foreign meddling.

Ultimately, the new conservation boils down to a more sophisticated approach by private firms—from loggers to fruit distributors—to working out how a stretch of forest can be made into a long-term source of profitable business. It seems that Brazil is groping for ways of reconciling the interests of people who live in the forest (including those living in towns in the forest), those who live off the forest, those who depend on the forest for other services such as hydropower—and those who simply want to keep the forest as it is.

A report this week from the World Conservation Union and a Washington-based organisation, Future Harvest, says that biodiversity hotspots are often being threatened by the demands of agriculture. But the report also points to an emerging set of strategies it calls "ecoagriculture", which show how to minimise conflicts between the demands of agriculture and those of biodiversity. Out of the woods, in short, come some new grounds for optimism. If Brazil can also deal with the problem of lawlessness and corruption, it can easily improve on the abysmal record of largely deforested first-world countries (from which Brazil is understandably unwilling to take hypocritical lectures). With luck, Brazil might even inspire other tropical countries to follow suit.

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Letters

May 10th 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
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Unnatural selection

SIR – I disagree with your blanket assertion that genetic alterations to embryos in order to select arguably desirable traits will represent a "potential loss of dignity and of autonomy" ("Perfect?", April 14th).

The necessary technology to enact genetic choice is, by your estimates, many years away but it will not exist in isolation. A capacity for prenatal alteration of a child's eye colour, for example, will almost certainly be accompanied by a similar postnatal capacity to allow individuals to make a choice of their own. It may be as simple as a cosmetic choice (tinted contact lenses), a more complex surgical one, or even a tailored retrovirus to alter an established genome. As one technology develops, so will the other. It is possible that there will be more economic motivation for postnatal alterations than prenatal ones.

The upshot of the bio-genetic revolution is the birth of somatic flexibility: our bodies will no longer be such deterministic creations. This will be just as true of adults as it is of zygotes.

Frank Lowther
Los Angeles

SIR – Your concerns about the mass cloning of humans in America are mistaken. As usual, the issue will be resolved in the courts. After the first multimillion-dollar verdict for "wrongful cloning" is awarded to a baby clone born with deformities, there will be an end to insurance cover for all doctors, hospitals and firms involved. That will put a swift end to the business.

Alexander Margulies
Mauritius

SIR – I fail to see how cloning will alter things. As a college professor, I face rooms of identically clad students who all watch the same sitcoms, have all seen that month's two or three mass-produced Hollywood films and all listen to the same six indistinguishable musical groups on the two local commercial radio stations. Perhaps that, like, also totally like, explains, like why they all, like totally talk the same. They are often all identically named. In 1996, my first year of teaching, I had 11 Jennifers and six Jasons in one class. American capitalism has already produced far more comprehensive cloning than chemistry could ever hope to achieve.

Sam Mustafa
Charleston, South Carolina

Film buff

SIR – Your reference to the legendary William J. LePetomane from the film "Blazing Saddles" in your article on pornography in Utah is wrong ("Utah sets the pace", April 21st). Rather than a mayor, he was governor of some vaguely defined territory in the American west and uttered those famous lines, "work, work, work, work", only once while staring into the voluptuous, exposed breasts of his secretary, "Miss Stein". Evidently, the current porn tsar of Utah would have been unemployed in his administration.

Kevin Kearney
Geneva

Children as slaves

SIR – Two points in your article about child slavery in Africa need clarification ("Slave-ships in the 21st century?", April 21st). First, the International Programme on the Elimination of Child Labour estimates there are 250m child workers between the ages of five and 14, not 250m child slaves. Of these, some 80m are forced to work in the so-called "worst forms" of child labour—prostitution, pornography, illicit activities such as drug trafficking, hazardous work, forced labour and slavery. The extent of child trafficking in west Africa is not yet fully researched but indications are that it is on the rise in all regions of the world.

Second, you state that only 20 African countries out of 53 have ratified a UN convention (actually ILO convention 182 of 1999) aimed at eliminating the worst forms of child labour. In fact, this is an impressive number. So far, the number of ILO member states to ratify the convention is 72 and we hope to register several dozen more in the coming months. No convention in the 82-year history of the ILO has ever received so many ratifications so quickly. This provides a basis for hope that the problem of child labour in its worst forms can be addressed sooner rather than later.

Frans Roselaers
Director
ILO International Programme on the Elimination of Child Labour
Geneva

Evil empire

SIR – I can well understand the fervour over the Confederate flag and other Confederate symbols ("Not as simple as it looks", April 21st). Why is there no similar uproar over the state flag of Hawaii? Like southern flags that display the Stars and Bars, the Hawaiian flag prominently displays the Union Jack, a symbol of oppression worldwide. The Union Jack has been hoisted in every corner of the globe as a symbol of British imperialism; few people have not been victimised by English overlords at some time. Just as the Confederate flag is a symbol of racism and intolerance, so the Union Jack is a symbol of imperialism and oppression. The global memory needs to be rid of them both.

Doug Schaden
Santa Rosa, California

Breaking up is hard to do

SIR – Your advocacy of a Microsoft break-up seems to assume that any ties between operating system and applications would be broken ("What to do about Microsoft", April 28th). Not so. Business partners everywhere are finding that common ownership is irrelevant to joint strategic initiatives. New technology is lowering inter-company transaction costs and alliances are growing at several times the rate of acquisitions.

Preventing Microsoft and any successor organisations from installing competitively objectionable linkages will take more than a break-up. Every possible linkage with every other possible partner across the divide between application and operating system will have to be monitored and litigated. This is unlikely to succeed. The industry simply moves too fast.

David Sadtler
London

Bomb surprise

SIR – You slip up by saying that the V1 flying bomb of the second world war was powered by a ramjet ("Scram!", April 21st). In fact, it used a pulse jet. As you mention, a ramjet needs to fly supersonically, which a V1 flying bomb did not. I witnessed several flying not much faster than a Spitfire.

Mike Kingston
London

Wasting time

SIR – Bagehot (April 28th) thanks me for putting up with his opening paragraph. No thanks are needed. I never waste time reading the opening paragraph of any newspaper article. With rare exceptions, the first paragraph contains nothing needed to understand the rest of the article. At most, one need only glance at the opening sentence. Other than a single paragraph item, like this letter, I urge all readers to omit opening paragraphs in future.

Jan Harrington
New York

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Europe's spectral nation

May 10th 2001 | PRAGUE, MARCHEVO, KOSICE AND BUDAPEST
From The Economist print edition

Europe's attitudes to Gypsies are both ignorant and prejudiced. Time to do better

AT LEAST 6m Gypsies, or Roma, live in Europe, most of them in former communist countries or scattered around the Mediterranean. They are at the bottom of every socio-economic indicator: the poorest, the most unemployed, the least educated, the shortest-lived, the most welfare-dependent, the most imprisoned, and yes, the most segregated. In one indicator, they lead: they have the most children. In sum, they are a spectral third-world nation in Europe.

In a swathe of land running from the Polish side of the Tatra mountains to the Aegean sea, Gypsies account for between 5% and 12% of the population. Accurate statistics are difficult to come by because most countries refuse to gather ethnic data, at least for public consumption. The treatment of these Gypsies is perhaps the most important civil-rights issue in Europe, and one that will have a direct bearing on European Union accession talks and on regional development.

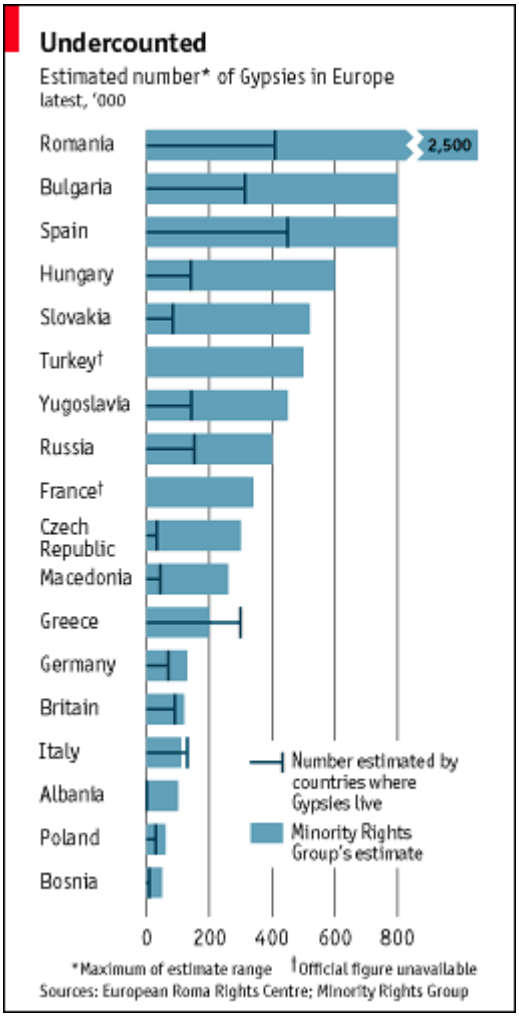
In Hungary and the Czech Republic, where they make up around 3% of the population, Gypsies have been among the biggest losers in the past ten years. Unemployment rates for Gypsies run at 70% and above. A study in Ostrava, an industrial city in the Czech Republic, found that a Gypsy child was 23 times more likely to be placed in a school for the mentally retarded than a white Czech child, even when of normal intelligence. The best such a child can hope for is a career as a cleaner. In Hungary Gypsy children are banned, in some schools, from the "whites only" cafeteria and gym. Across Central Europe, Gypsies are the prime target of neo-Nazi thugs.

The Czech and Hungarian governments, and many citizens too, are committed to improving matters. In merely recognising the problem, they are already doing better than EU countries such as Spain, Italy and especially Greece. But they have not yet gone far towards solving it. "We'll see the first results in a decade," says Jan Kavan, the Czech foreign minister.

In Slovakia, Gypsies make up over 10% of the population. Their birth rate is so high, and that of other Slovaks so low, that they might even become a majority in the country by 2060. Welfare payments to Gypsies will bankrupt the country long before then, perhaps as early as 2020. Romania's 2m Gypsies—the largest national population in the world—are in a precarious position. The Gypsy slums of Bucharest are already wretched. If the Romanian economy continues to fall apart, as looks likely, Gypsies will remain impoverished and will become racial scapegoats.

The EU is the Gypsies' best ally. On a visit to Slovakia in February, Günther Verheugen, the EU commissioner for

enlargement, made a point of sticking his head inside a Gypsy shack and promising $10m for specific Gypsy development projects in the country this year. “We cannot expect”, he said, “that a solution to this problem, which arose hundreds of years ago, will be found within a few years.” Careful words. But then Mr Verheugen is in an awkward position. He is adamant that the “Gypsy question”, as it is queasily termed, will not hold up enlargement, but he also knows it must begin to be tackled at source before there can be any agreement on the free movement of labour. An exodus of Gypsies into the EU, everyone agrees, would be a political disaster for an expanding union.



The history of a tribe

Gypsies can be hard to define. Europe now contains “travellers” who are not Gypsies, while many Gypsies are settled in towns and cut off from their traditions. There is a problem of attitudes, too. No one can deny that Gypsies are badly treated; but a culture of petty criminality in some Gypsy groups means that the prejudice often seems justified. It is not just right-wing thugs who say this; ask any farmer in Kent, in south-east England, what he thinks of the “pikeys” who come calling.

Surprisingly, there is no clear definition of what Gypsies are. Dark-skinned Romany-speaking nomads of Hindu origin, says the dictionary. But not all Gypsies are dark-skinned and only about 4m, at most, speak some kind of Romany. Certainly they are not Egyptians, from which the word, in English, is derived. Nor, nowadays, are they the colourful nomads of yore, drawing decorated caravans down dusty roads. Some traditional roaming Gypsy culture remains, but not much. The Nazis, who murdered perhaps 500,000 Gypsies, saw to that. So too did the communists, whose well-intentioned but damaging paternalism held that Gypsies should settle down like good comrades, often in industrial towns.

According to Ian Hancock, a professor at the University of Texas, the latest research indicates that the original Gypsies were a mix of Indian ethnic groups assembled in the early 11th century as a military force to resist Islamic incursions. Romany developed in India as a military *lingua franca* with heavy Persian influences, as did Urdu; the Romany word for a non-Gypsy, *gadje*, is derived from the Hindi word *gajjha*, meaning civilian. The first record of Gypsies in the west is in Constantinople in 1054; their first appearance in Europe proper came as military attachments to Ottoman armies. “The fact they were mistaken for Muslims”, Mr Hancock ruefully notes, “set the stage for anti-Gypsyism.”

“We were not nomads by choice,” says Emil Scuka, president of the International Romany Union (IRU), which seeks to represent Gypsies

worldwide (though unconvincingly so; it relies on *gadje* money to stay afloat). Banned from entering towns, Gypsies found employment on the margins of society as metal workers, entertainers and thieves. They were enslaved in Romania until 1864. Pogroms came and went across Europe until the Holocaust, which Gypsies call *Porramous*, the devouring. Most Gypsies never even made it to the death camps. Local police units, happy to spare the Nazis the work, shot up caravans in meadows and copses. Travelling families, with no written records and with hidden traditions, simply vanished. Tellingly, Gypsies were not mentioned at Nuremberg.

No matter that mainstream society sees Gypsies as a whole; Gypsies see themselves indistinctly, if at all. Gypsy culture is one of patriarchal families, sometimes clans, but never a nation. Even where disparate Gypsy groups gather together, as in Italian camps for nomads, mutual antagonisms quickly drive them apart. Identity gets complicated. Several groups singled out for murder by Albanians in Kosovo for being Gypsies reject the appellation.

Even the terminology is tricky. “Roma” is the preferred term, but not all Gypsies are Roma. “Gypsy” is much more elastic—all Roma are Gypsies. But it is also a loaded term since, across Europe, Gypsy is another word for thief.

Not without reason. The Gypsy rate of criminality is high (though ill-treatment of Gypsies in judicial systems is high also). According to Helsinki Watch, a human-rights group, 60% of male inmates in Hungarian prisons are Gypsies, 12 times the national average. In Spain, where Gypsies account for 1.5% of the population, Gypsy women make up more than a quarter of the female inmates.

Nor do Gypsies, on the whole, have much time for *gadje.* Traditional Gypsies, such as those who can be found begging with child on hip in the London Underground, are mostly from Romania, the descendants of freed slaves. Always landless, they have developed a service culture. To them, *gadje* are all potential customers (or targets, in the case of pickpockets). Gypsy-*gadje* relations are made even trickier where traditional groups still observe laws shaped by a sense of imminent defilement, the idea (more understandable when framed within an Indian caste system) that contact with *gadje*, particularly sexual contact, is a kind of pollution punishable by banishment.

Settled deprivation

The Gypsy ghetto of Marchevo in Bulgaria’s Rhodope mountains, a few miles from the Greek—and therefore EU—border, is pretty representative of how poor Gypsies live nowadays. Nothing romantic or carefree here, just a forlorn settlement on a hill above the whitewashed village of Marchevo proper. Two families settled on the hilltop in 1960. They were basket-weavers by trade, and their family had roamed the Balkans selling baskets for as long as anyone could remember. Communism and the advent of plastic bags stripped them of their livelihood. So they stayed.

They have prospered in nothing, save children. The ghetto has grown to 400 people, half of them under the age of 15. All those of working age are unemployed. Families survive on small welfare payments and on what they can forage. They have neither electricity nor gas. The only source of water is a pipe jutting from the mud from which everyone drinks and washes, not least the ghetto’s much-loved dogs and horses. There is no sanitation; rubbish and waste are everywhere. The living quarters are a few fetid blankets and pieces of torn plastic arranged over green branches hacked from a nearby forest. Daylight does not penetrate inside, though rainwater sluices in. A grandmother points out her 14-year-old daughter, sick with a blood disorder. She lies feverish in a filthy bed, a new-born child at her side.

The only book in the ghetto is a bible, left by an itinerant Bulgarian evangelist. Few can read it, though its arrival caused the ghetto to declare itself Baptist. “I can read a form, sign my name, that’s about it,” says a grandfather. The most educated person in the ghetto, he adds, left school at 15.

The Bulgarian government, in distant Sofia, claims to be sympathetic. Petar Stoyanov, the country’s president, has promised more assistance and a new water supply for Marchevo. But he knows there are 300 or so such settlements in Bulgaria, and several thousand more littered across the rest of Europe. In Slovakia, about 25% of Gypsies live in such segregated communities, and there is little money or political will to make them less miserable.

In the ghettos, health standards have collapsed. Birth defects have risen, as has infant mortality. Tuberculosis has returned. The rise in the number of children given up to orphanages also reflects worsening conditions: 75% of children in Romanian orphanages are given up by Gypsy mothers. “It

makes me sad," says one Gypsy leader, "but you cannot raise children for the 21st century in conditions of the 13th century."

Young Gypsy men in the ghettos have little concept of what a job is. But then they stand almost no chance of getting one anyway. Racial discrimination does not even come into it; there are no jobs nowadays for unskilled and illiterate workers. In communist times the huge steelworks in Kosice, a city in eastern Slovakia, used to employ Gypsies to sweep the mill floors. Now they use machines.

Job mobility is very low, but Gypsies follow success models. When one Slovak Gypsy made it to London and sent back a videotape showing how good life was there, his entire village sought asylum in Britain. Another village devoted itself to robbing passengers on the Prague-Kosice night train after one family showed it to be a good earner. Completing school could be a good earner, too; but it takes longer.

"They're very good at music"

There are brighter sides to this picture. Police forces across Central Europe now at least admit to racial discrimination. "Gypsies used to be beaten as a matter of routine," says one human-rights lawyer. "Now it is only on special occasions." Jörg Haider, ironically, might prove a help to Gypsies. The success of his xenophobic party in Austria last year pushed the EU to pass a directive, offering more legal protection to minorities, that all applicant countries must accept before they can join.

Special scholarships mean more Gypsy children are staying at school and entering university; the University of Cluj, in Romania, has 150 Gypsy students this year, a previously unheard-of number. Governments across the region have begun to change their education policies to give Gypsy children the best chance. There is some international pressure: on International Roma Day, April 8th, the United States announced that it was giving $585,000 to the Open Society Institute to provide college scholarships and grants for community projects especially for Gypsies. And it asked Hungary and the Czech Republic to change their laws.

The non-wandering life

In the past, the few Gypsies who succeeded often did so at the expense of their Gypsy roots. Now young Gypsies like Dragan Ristic, a theatre director, are beginning to assert their identity. Mr Ristic, who comes from Yugoslavia, has set up Gypsy theatre companies in Belgrade and Budapest. "To be a Gypsy", he says, "is to be an unwelcome guest from nowhere." Still, Mr Ristic is cautiously optimistic. He spends his spare time translating human-rights documents into Romany, a difficult task since the language was codified only ten years ago and still has a dictionary of only 5,000 words.

Rudolf Schuster, the president of Slovakia, thinks that Gypsy children from the ghettos should be sent to boarding school. "No child can learn in those conditions," he says. Educated for what? "Well, music perhaps. They're very good at music, you know."

It would be easy to scoff if anyone had a better answer. So far, no one has. Well-meaning attempts to reduce Gypsy welfare dependency by slashing benefits have so far only forced the poorest families to Gypsy loan sharks, where loans are more readily repaid in teeth, fingers and sex. "Everything westerners suggest has already been tried 20 years ago," says a frustrated official in Kosice, in eastern Slovakia. He wonders how his city, labouring under 25% unemployment, can keep subsidising Gypsy housing while evicting white Slovaks for not paying rent. Handouts to Gypsies translate directly into votes for extreme nationalist parties.

Wanted: leaders

The biggest problem is the lack of good Gypsy leaders. Leadership is strong at the family and clan level but weak, divided and often corrupt at the political level. Traditional Gypsies still swear fealty to self-declared "kings" who tend to hold court in sprawling, flamboyant residences, dispensing favours and receiving tribute. Each king represents a single clan, which is probably feuding with several others.

Politically, Gypsies are worse off even than ghetto blacks in America. Although drugs and violence are not endemic in their settlements, they have almost no middle-class to aspire to and no political consciousness. There is no Gypsy equivalent of the NAACP; there has never been, and probably never will be, a Gypsy equivalent of Martin Luther King.

Gypsies remain largely removed from political life. Few vote. When they do, they are as likely to be swayed by the cash handouts of populist parties as to support an ethnic-Gypsy party. There are signs, particularly in urban, less traditional communities, that this is changing. More Gypsies than ever before are winning elections for political office, and at a higher level: by one estimate, there are 20 Gypsy MPs and mayors in several countries, besides 400 local councillors. But the process is slow. Whenever the local press praises an elected Gypsy leader he is usually brought down, either for drink or general incompetence.

Besides, Gypsy political parties rarely agree among themselves. Attempts to make a coalition of Gypsy parties (Slovakia has 17) invariably break down in petty squabbles. It is the same with international Gypsy organisations. Mr Scuka's IRU is meant to represent 10m Gypsies in more than 30 countries and has done much to promote a standard and written form of Romany. But Gypsies in the ghettos have never heard of it, and few of those who attend its congresses have been democratically elected themselves. Hungarian Gypsies did not bother to show up at the IRU's last congress, some whispering in private that the organisation was just a front for the Czech secret service.

Josef Sana, the first Gypsy to be elected mayor of Lunik 9, a miserable housing estate on the edge of the Slovak city of Kosice, is a case in point. The communists built Lunik 9 as a model of urban planning and integration for 3,800 people; whites and Gypsies living together in harmony, or so the propaganda went. The whites fled as soon as they could, leaving a Gypsy ghetto—population 5,200, and rising.

Mr Sana provided a glimmer of hope to all, successfully organising a clean-up of the estate and founding a local Gypsy security force to discourage bad behaviour. A good-news story, then? Not quite. The day after *The Economist* saw him, Mr Sana was arrested by the police.

At national and supranational level, the story is the same. Governments are keen to involve Gypsies in solving their own problems, but are frustrated by the lack of leadership. Privately, EU officials say they do not trust Gypsy leaders enough, yet, to let them administer a single euro. Over the centuries, not much has changed.

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Timothy McVeigh's execution

A covenant with death

May 10th 2001 | WASHINGTON, DC
From The Economist print edition

What do the life and death of Timothy McVeigh say about the United States? Not as much as many people would like to think

Get article background

ON MAY 16th, barring a miracle, Timothy McVeigh will be executed in Terre Haute federal prison in Indiana. At seven in the morning he will be strapped on to a gurney and killed by lethal injection. The work will be done by volunteers from the Bureau of Prisons staff. Mr McVeigh has admitted to his crimes, halted his appeals and reconciled himself to his fate. The only person who can save him from death is George Bush, hardly a man of second thoughts when it comes to executions.

Almost 300 people, most of them relatives of the victims of the Oklahoma City bombing in 1995, will witness the execution. About 30 will see it happen in the prison, through a glass screen. The rest will watch over closed-circuit television. Together, they will constitute the largest audience for an American execution since the last public hanging in 1936.

It is reasonably safe to make two predictions about the execution. The first is that it will be a media circus. Some 1,600 journalists will descend on Terre Haute. The sheer enormity of Mr McVeigh's action has guaranteed a huge level of interest: he killed 168 people, 19 of them under six years old, in the bloodiest-ever act of terrorism on American soil. Mr McVeigh, in himself, seems to embody the phrase "the banality of evil". His visitors are struck by the fact that he seems well-balanced and normal, even charming. Yet he describes the children he murdered as "collateral damage". His execution represents a weird mixing of the atavistic and the modern, a death made public so that families of the victims can achieve that favourite word of the psycho-babblers, "closure".

The second prediction is that the execution will give another boost to anti-Americanism. George Bush's first few months in office have already provoked a barrage of articles about America's beastly ways, particularly in Europe. The execution will remind Europeans that only two (albeit big) rich countries still routinely kill criminals—America and Japan. The idea of broadcasting an execution is likely to strike many Europeans as particularly barbaric. And the whole affair will also remind them that Mr McVeigh was spawned by a militia movement that carries America's infatuation with firearms and hostility to government to lunatic extremes.

America the normal

But will Mr McVeigh's execution really prove that America is an oddball? Are Americans deaf to the qualms that have caused other advanced countries to abandon the death penalty? And is the country really teeming with anti-government militiamen? The true picture is far more nuanced, and more encouraging, than the America-bashers like to believe.

Certainly, America's use of capital punishment is markedly greater than most other countries'. In 1998, the last year for which comparable data are available, the United States, with 68 executions, was the third-biggest executioner in the world, after China (1,067) and Congo (100), and just ahead of Iran (66). It is hardly distinguished company. America also allows the execution of mental defectives—Bill Clinton once broke off campaigning to allow just that to happen in Arkansas—and people under 18 at the time they committed the crime. In 1998, a Texas state legislator proposed lowering the age limit to 11.

The European Convention on Human Rights, signed by 39 countries, bans execution, putting it on a par with genocide and torture. Fledgling democracies also routinely ban it as a way of proving their fitness to join the commonwealth of nations. When Nelson Mandela came to power in South Africa, one of the first things he did was to abolish the death penalty. Amnesty International calculates that 108 countries have now banned capital punishment, either by law or in practice.

It is true that the abolition of the death penalty is seldom the result of an upsurge of general revulsion. Both Britain and France abolished the death penalty in the teeth of strong popular opposition. But, at the moment, public opinion seems to be against the practice. In France, a recent poll found that only 46% favoured the death penalty. Only one in four Britons would bring back capital punishment for murder. In Italy, a grass-roots campaign has gathered more than 2m signatures for global abolition. The Coliseum in Rome (probably the scene of more executions than any other surviving building) is illuminated in gold whenever a death sentence is commuted anywhere in the world.

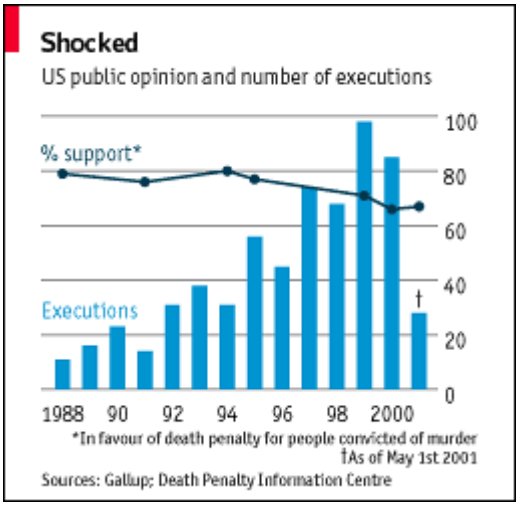
America's penchant for the death penalty has long been a source of friction with other advanced countries. Mary Robinson, the United Nations' commissioner for human rights, has criticised America for being out of step with other countries. Colin Powell, the secretary of state, is routinely confronted about his country's use of the death penalty when he meets his counterparts around the world.

Such international hostility is proving a problem for Mr Bush, who presided over 152 executions in his six years as governor of Texas. The first thing that most Europeans were told about Candidate Bush was that he was a serial executioner. One prominent Swiss newspaper marked his inauguration by printing all the photographs it could find of prisoners in Texas who had been executed on his watch. Jack Lang, a French cabinet minister, has even called Mr Bush "a murderer".

Yet America's attitude to execution is a good deal more nuanced than most outsiders think. A single state, Texas, has accounted for 35% of the executions in the country since 1976, when the Supreme Court reinstated the practice. Twelve states do not have the death penalty. And support for execution is on the wane.

It is true that three-quarters of Americans support executing Mr McVeigh. But, outside this exceptional case, support for execution has dropped from 80% in 1994 to about 66% today. This decline is being driven less by moral qualms about execution than by practical worries about whether the right people are being executed.

Almost a hundred people have been released from death-row because proof of their innocence has turned up. A mountain of evidence has been produced to show that the legal process can be both slipshod and biased. A detailed examination by academics at Columbia University of 5,760 capital cases in 1973-95 found error "at epidemic levels": more than two out of every three capital cases reviewed by the courts were overturned on appeal. There is evidence of defending lawyers sleeping on the job or practising while drunk. And the main victims are the poor. Around 90% of the people on death-row could not afford their own lawyers. One in three of those executed is black.



Even among people who support the death penalty in theory, many are beginning to have second thoughts in practice. George Ryan, the Republican governor of Illinois, has declared a moratorium on the death penalty in his state. In Oklahoma this week the governor, Frank Keating, stopped the scheduling of executions for the 12 men on Oklahoma's death-row after doubts arose about evidence provided by a forensic chemist. Eleven men had already been executed on the strength of the chemist's findings.

These pragmatic worries also have a moral tinge. America is beginning to turn against the more extreme

manifestations of the use of the death penalty. If, as expected, Florida's governor, Jeb Bush, signs into law a bill forbidding the execution of mentally retarded people, it will be the 15th state to pass such a measure. An attempt is also being made to sanitise the process itself. Increasingly, prison executioners are shying away from gruesome means, such as the electric chair, the gas chamber, hanging and the firing squad. This year the only technique will be lethal injection. Last year, one man was electrocuted in Virginia and four in Alabama.

Militias on the wane

Even more encouraging than the decline of public confidence in the death penalty is the almost complete collapse of the force that spawned Mr McVeigh. Mark Potok, of the Southern Poverty Law Centre, argues that "the militia movement is on its death-bed." The number of militias is declining rapidly, from a maximum of 858 in 1996 to 194 in 2000, and the remaining groups are mere shadows of their former selves, weak, disoriented and disorganised.

On April 29th, the Northern Michigan Regional Militia was dissolved. Mr McVeigh and his accomplice, Terry Nichols, used to attend the meetings of one of its forebears, the Michigan Militia, which then boasted 8,000 members. Norman Olson, the militia's leader, admits that membership at his new outfit was plummeting and that he no longer had any members with enough military experience to lead training exercises in the woods.

Membership of these groups surged in the wake of the Oklahoma City bombing, because a lot of Americans at first thought it was the federal government, not Mr McVeigh, that had planted the bomb, as part of a gigantic plot to impose its will on freeborn Americans. But eventually three things, apart from Mr McVeigh's admission that he had done it, conspired to kill the right-wing militia movement.

The first was a crackdown by local government. In the mid-1990s the militias became addicted to establishing "common law", or vigilante, courts. These courts spent a great deal of time trying Bill Clinton and Janet Reno (in absentia) for treason. But they also harassed large numbers of ordinary people, not least by filing false property liens on their houses. The public outcry over all this bizarre activity was so great that 20 states passed laws against vigilante courts, and thousands of militia members were sent to prison.

The second was the growing fanaticism of the fringe. The Oklahoma bombing inspired about 30 serious conspiracies to blow things up, one of which would have involved some 10,000 victims. But the third reason for decline is simple exhaustion. Many members of the militias are simply tired of waiting for a revolution that never seems to come. For many, the failure of "Y2K" to bring about the collapse of western civilisation was the final blow.

This is not to say that all is quiet on the political fringe. The rapid decline in the militias is coinciding with a small rise in neo-Nazi activity. Mr Potok calculates that America has about 600 hate-groups with between 100,000 and 200,000 members, a growing number of whom are overtly neo-Nazi.

But this hardly makes the United States peculiar. Mr Potok calculates that the neo-Nazi movement has proportionately more supporters in Germany, Hungary, Poland, the Czech Republic and Sweden. Recorded incidents of neo-Nazi crimes rose by 59% in Germany last year, to almost 16,000. One in ten young Swedes supposedly listen to "white power" music.

Hard-right figures have also enjoyed much more electoral success in Europe than they have in the United States. Jean-Marie Le Pen's National Front was for a time a considerable force in French politics. Jörg Haider's Freedom Party is part of the governing coalition in Austria. By contrast, Pat Buchanan, the most right-wing candidate to run for the American presidency in recent years (and mild when compared with either Mr Le Pen or Mr Haider), got only 0.5% of the vote last year.

The message of McVeigh

In the end, neither Mr McVeigh's life nor his death constitutes an indictment of the United States. Yes, America is relatively unusual in executing people. Yes, America's commitment to victims' rights has produced a strange event, in which hundreds of people will watch Mr McVeigh die. But many Americans are increasingly ill at ease with the practice of death. And this is not the only country in which far-right

nastiness festers. If some bunch of political extremists were to produce an atrocity on the scale of the Oklahoma bombing in Stuttgart or Milan, European opinion might not be so averse to executions.

Let America's friends see Mr McVeigh's end not with scorn and exasperation, but with recognition that America's ways, and their own, are not so very far apart.

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California's power crisis

Praying for a cool August

May 10th 2001 | SAN FRANCISCO
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California will need to buy a lot of expensive power this summer. It must work out how to pay for it

Get article background

SMOKE-FILLED rooms have long been banned in California, but its politicians are building up a good fug as they sweat over the state's electricity bills. On May 7th, record temperatures in the central part of the state brought the first power cuts for two months as too many people switched on their air-conditioners. Total demand was only about two-thirds of what it can reach in the summer, but, with several power stations out of action for maintenance, even a limited rush for cool air proved too much for the system.

The black-outs, which went on until cooler weather arrived later in the week, hit about 300,000 customers for an hour at a time. They added to the pressure on Governor Gray Davis and the state legislature to do something to avoid the huge financial damage—and threat to life—that could be caused by long power cuts in the summer. New power plants are being built, but the first priority for the state is getting through the next few months.

California's immediate crisis is financial. Thanks to the bungled deregulation of 1996, its utilities have been stretched between soaring wholesale electricity prices and fixed retail rates. Wholesale spot prices peaked again on May 8th, reaching $560 per megawatt-hour, their highest since December and 11 times the typical price paid in 1999. Months of losses have driven the state's two biggest utilities close to collapse. Pacific Gas & Electric, the largest of them, which serves the northern part of the state, filed for bankruptcy protection on April 6th. Southern California Edison, which avoided bankruptcy at the same time by selling its transmission lines to the state, is close to insolvency.

The same mistake of buying high and selling low is now draining the financial reserves of the state government, which stepped in to use its massive reserves of credit to buy power from suppliers which refused to sell any longer to the shaky utilities. In four months, California has spent most of its $6.6 billion surplus.

To cover these costs, the Californian Assembly approved a $13.4 billion bond issue on May 7th. But the opposition of the Republican minority, which wanted a smaller amount, means that no money can be raised until August. If spot prices climb higher in the next two months, the money will have to come from things like anti-smoking and tyre-recycling campaigns—hardly Republican priorities.

The politics of this are not clear. The Bush administration, like the state Republicans, has been happy to see Mr Davis, who once looked like a plausible Democratic candidate for president next time, suffering politically. But the White House also fears that a foundering California could damage the rest of the economy. Mr Davis, while calling for federal intervention, has also urged Californians to reduce their consumption. Mr Bush, having said at first that conservation was not the answer to California's problems, has since made a speech ordering federal buildings in California to conserve energy.

Anyway, Californians have so far ignored their governor's pleas. According to the Independent System Operator, which manages the state's transmission lines, their behaviour has barely changed. Even hanging laundry out to dry, rather than putting it in the tumble-dryer, has struck some neighbourhood associations as too great a concession to the crisis. They worry that undies flapping in the breeze will lower the tone, and therefore the value, of their houses.

Conservation for its own sake is a dreamlike notion in a place like California. But more careful decisions about when to use power would flow naturally from correcting the biggest flaw in California's market, the insulation of consumers from the signals sent by fluctuating prices. By themselves, price rises do not give users much of an incentive to reduce their demand. Retail prices that varied to match the wholesale spot

price would allow users to choose when to do their heavier power-consuming—unless Nature, in the shape of a heatwave, leaves them no choice.

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Lexington

A tale of two dynasties

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Ted Kennedy is leading an assault on George Bush's educational reforms

WE HAVE some time to wait for the ultimate political soap opera, a race between a Bush and a Kennedy for the presidency. In the meantime, consider a more subtle test of dynastic strength: a wrestling match between George Bush and Ted Kennedy over the future of the country's schools.

At first sight, the Boston bruiser is crushing the life out of the faux Texan preppie. Mr Kennedy, the senior Democrat on the Senate committee that supervises education, has delivered an impressive triple. He has ripped every radical idea out of Mr Bush's education bill. He has changed the focus of the education debate from reform to resources. And he has done all this in the cuddly name of bipartisanship. Mr Kennedy has not done it alone. The education bill has been mauled by the House as well as the Senate, and by some Republicans as well as by Democrats. But Mr Kennedy has led the assault so effectively that he is already being treated as the de facto leader of the opposition.

The first things to go from the bill were school vouchers (which give parents the right to choose where to spend their tax dollars). Mr Bush's voucher plan had been carefully crafted to lure in moderate Democrats, many of whom think that some form of experiment is needed. Parents at poor schools were going to be given vouchers only after the schools had had three years—and plenty of federal help—to improve themselves. But, with a nudge from Mr Kennedy's lieutenants, suddenly all that warm talk about experimentation went out of the window. The Democrats have rallied to the teaching unions' battle-cry: resist every hint of competition to the death.

Perhaps vouchers were always bound to go. They are, alas, not particularly popular, and the teachers' power in the Democratic Party is immense. National testing, though, looked a harder nut to crack. Mr Bush's argument that examinations are an essential guide for parents went down well on the campaign trail. But Mr Kennedy's troops have done their best to make sure that the tests are as clear as mud, allowing different schools and even different teachers to pick and choose between different tests. The White House claims to be fighting back on this issue, but parents may well find it hard to compare schools or monitor their children's progress.

If "accountability" looks pretty limited, Mr Kennedy has reduced the other Bush buzzword, "flexibility", to a meaningless mantra. Mr Bush wants to give states more control over federal education money in return for hitting tough targets. But the Senate has limited the experiment to only seven states—with all sorts of strings attached—and the House has junked it entirely.

Not content with turning a Republican bill into a Democratic one, Mr Kennedy is now accusing the White House of trying to "nickel-and-dime children's education". Never mind that America spends significantly more per head on education than other advanced countries while producing mediocre results. Never mind that Mr Bush plans to increase spending on schools. Let's stop nickel-and-diming children's education.

Why has Mr Bush let himself be outmanoeuvred? Wasn't education supposed to be his signature issue? And didn't he get plenty of experience dealing with wily Democrats in Texas?

The simple answer lies in the delicate balance of power in the Senate. It has hardly helped that the Republican chairman of the relevant Senate committee, James Jeffords, is more interested in his pet spending project—handicapped children—than in the general structure of education. Mr Bush is also hampered by the fact that most Republicans are privately uneasy about his willingness to extend the federal government's role in education.

But there is a more cynical answer: that Mr Bush is engaging in the Clintonian politics of triangulation. The rules of triangulation are fairly straightforward. You fight to the death to advance your main priorities, such as, in Mr Bush's case, his tax cut. But at the same time you move to the centre on more

peripheral issues in order to neutralise the opposition and woo swing voters.

On tax cuts, Mr Bush consolidated his political base and then tried to pull the Democrats rightwards. He also held firm for his original demands until the very last moment. On education, he compromised from the first. He chose an ostentatiously moderate education team. He signalled that vouchers would be surrendered without a fight. Mr Kennedy was invited to watch movies at the White House.

The political calculus

Which all makes good tactical sense. The harsh truth is that most Republican parents are fairly content with their local schools. And the inner-city populations that have most to gain from educational reform are glued to the Democratic Party. If Mr Bush had fought harder for reform, he would have faced a barrage of attacks from tearful, telegenic teachers; now he can look forward to an embrace with Mr Kennedy in the Rose Garden. The president will have shown that he has mastered the Washingtonian art of winning by appearing to lose; Mr Kennedy will brag to his party's paymasters about bringing the Republican pup to heel. The honour of both dynasties remains intact.

But will this neat piece of political calculation pay off in the long run for either man? Mr Bush prides himself on delivering what the business world wants. But what business wants most is a well-educated population. Mr Bush prides himself on being a compassionate conservative. But there is nothing compassionate or conservative about keeping education where it is.

As for Mr Kennedy, it is hard to see what he has gained from keeping the status quo, either. A champion of the poor and the downtrodden has leapt to the defence of a system that has done little to help them. Other Democrats might be able to claim that they could not stand up to the teachers' electoral bulldozer. A Kennedy does not have that excuse. It is an episode that neither dynasty is likely to look back on with pride.

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Talking about history

Kalamazoo, forsooth!

May 10th 2001
From The Economist print edition

Medievalists gather in an unlikely spot

THEY emerged from archives around the world, let their eyes adjust to the daylight, and then headed for Kalamazoo. Some 3,000 medieval scholars gathered at Western Michigan University early in May for the 36th International Congress on Medieval Studies. For four days, the group discussed and debated every aspect of the Middle Ages (roughly 800-1500AD). Some 1,800 papers were presented. The presence on the souvenir stalls of Ovidian T-shirts (much too early) and Shakespearean Christmas-tree ornaments (too late) showed that the organisers accepted no temporal bounds to their work.

AP

Maid Michigan

The conference, the world's largest gathering of medievalists, is a remarkable reflection of the world's intellectual landscape, says Paul Szarmach, director of the Medieval Institute at Western Michigan University and a scholar of Anglo-Saxon prose. Miss one year, organisers say, and colleagues think you're sick. Miss two years, and they think you're dead.

The conference is in part, like others, a trade-show. Academic publishers hawk books; vendors offer manuscripts (some fetching up to $17,000 a page), coins, rare books, musical instruments and fruit-cakes made by monks. New technology rears its head: facsimiles of medieval texts are now available on CD-ROM or over the Internet, and you may visit the Medieval Feminist Index website, even if that sounds like a contradiction in terms.

Some 50 professional societies use the conference as an opportunity to meet each other. The International Joan of Arc Society rubs shoulders with the Society for the Study of Homosexuality in the Middle Ages and the Renaissance Drama Society. Monks, nuns and musicians stroll in the grounds. This is one of the few places where you might encounter a Trappist monk talking to an overweight professor in a lime-green leisure suit, says Robert Babcock, a professor of history—and the sole medievalist—at Hastings College in Nebraska.

The medievalists have fun, too, in their own way. Paul Chevedden, a professor at Central Washington University, entertained a group at the bar one night this year with a presentation entitled: "Climax at Long Range: The Male Member and the Crusades", an examination of the phallic nature of the catapult.

For all this, the medievalists are a basically modest lot. One speaker drew laughter and applause when he observed, "It is often said that history is written by the winners. When I look around this room, I have my doubts."

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The mid-west's fight-back

Pulling the big bird

May 10th 2001 | CHICAGO
From The Economist print edition

Why Boeing may opt for Chicago

IF YOU have ever been backstage at a beauty pageant, you will recognise the mood of Chicago. The Boeing company wants to move its global headquarters from Seattle to one of three cities—Chicago, Denver or Dallas—and it has been inspecting each city's charms. So Chicago has put on display everything it has to offer, from handsome property to cultural attractions. It knows that Phil Condit, Boeing's chief executive, is a sailor and an opera-lover. A sailor would have a hard time in Denver or Dallas.

Come fly with me?

As *The Economist* went to press, no announcement had been made, but insiders imply that Chicago has won. There are not many jobs in it; Boeing is moving only 500 professionals, who will not make much of a difference to anything statistical (except income per head on the Lake Michigan shore). But, if the firm does indeed choose Chicago, it will greatly hearten a city that often feels overshadowed by America's more glamorous coasts.

The 1990s were good for Chicago, but it hopes the next decade will be even better. The 2000 census data confirmed what the towering construction cranes suggest: central Chicago's population is growing again after five decades of decline. It expanded by 4% between 1990 and 2000, helped by a large influx of Hispanic immigrants. Even better, income per head grew at twice the national rate in the 1990s—more than three times for the poorest households. The Chicago region added well over twice as many private-sector jobs (439,400) as the New York metropolitan area (173,500). Los Angeles lost 65,400 jobs.

The 1990s were good partly because the 1980s had been so bad. "Everything that could possibly have gone wrong did," says William Testa, the senior economist at the Federal Reserve Bank of Chicago. The region was hit by a crushing combination of high energy prices, a strong dollar, high interest rates and a farm recession. But then the tide turned. "Companies got smart in a big hurry," Mr Testa explains.

Chicago has also benefited from a renewed taste for urban living. Only a handful of American cities "look like the movies", says Paul O'Connor, executive director of World Business Chicago, a public-private development group that promotes the city. Chicago is one of them. It has some of the best architecture in America in a compact downtown area, and is loaded with galleries and concert halls. The number of new condominium units built in the middle of town has exploded from 129 in 1991 to a projected 10,724 in 2002. Residential property prices in the city's centre have risen by an average of 7% a year since 1988.

Geography has helped. One paradox of the high-tech economy is that it has increased the demand for face-to-face contact, particularly in business services. It helps to be in the physical centre (more or less) of the world's largest economy, if only because it is quicker to get to or from somewhere else. When the nation's radiologists or hardware salesmen meet for a trade show, it is likely to be in Chicago. The convention industry generates $6 billion a year for the city. Chicago businessmen have been quick to point out to Boeing's scouts that Chicago has non-stop flights to more international destinations than Dallas and Denver combined.

Windy promises

For all that, the city would do well to keep its eye on the future. For instance, Chicago's airports, O'Hare and the smaller Midway, are about as busy as they can be. O'Hare had the worst flight delays of any

airport in America in 2000. And nobody can agree what to do.

The airline industry has proposed adding an additional runway at O'Hare; the state's Republicans oppose the idea, mostly because the added noise and pollution would annoy the suburban voters represented by Henry Hyde, a Republican congressman. Instead, George Ryan, the Republican governor of Illinois, supports a proposed third airport some 30 miles south-west of the city—an idea fiercely resisted by Chicago's Democratic mayor, Richard Daley, who wants another runway at O'Hare. Business leaders rightly accuse the state's politicians of fiddling while angry travellers fume.

Alas, Chicago's pre-eminence in the futures industry is disappearing. Its squabbling bourses still cling to their open trading pits in the face of technological change that will almost certainly make them redundant. Already the Board of Trade has lost its mantle as the world's leading futures exchange to Eurex, an electronic exchange based in Frankfurt. Some 100,000 jobs are at risk.

Indeed, Chicago has been slow to get on the high-tech train in general. Perhaps that was wise; the city has been spared the wreckage now being sifted through in Silicon Valley. Still, the line between prudent and old-fashioned is a fine one. Chicago attracts a paltry 2% of all venture capital invested nationally, according to Metropolis 2020, a civic group that produces regular reports on the city. The cautionary tale most often recounted in Chicago is that of Marc Andreessen, founder of Netscape, who studied at the University of Illinois and then took his fledgling business to California, where the venture-capital climate was warmer.

Strong economic growth has created problems of its own, notably traffic jams, geographic sprawl and a shrinking amount of affordable housing. Chicago-area motorists report spending 44 hours a year stuck in jams, up from 31 hours a year in 1990. It is likely to get worse; only 9% of new houses built in the metropolitan area between 1990 and 1995 were within half a mile of a railway station, down from 46% before 1990. Lower-income workers may not find it easy to live near their jobs, either. The region lost a net 46,000 rental units during the 1990s.

The ultimate test of Chicago's health is simple: will the city be a good place for middle-class families to live, rather than merely a playground for young professionals and the "empty-nesters" who move to the city after their children are grown? That turns the eye to Chicago's public-school system, which Mayor Daley took under his control in 1995.

Since then, test scores have gone up steadily, albeit from so low a base that they need to go up much further. The star performers are the city's "magnet" public schools, which select their pupils by examination—and are drawing middle-class children away from private schools. But most of Chicago's public schools are not in that class.

A recent Northwestern University study concluded that Chicago's worst-performing high schools have shown little improvement despite nearly six years of attempted reform. In his annual state-of-the-city address, Mr Daley complained that reading scores throughout the system were not rising fast enough. Only a third of elementary students read as well as they should at their age. They, more than Boeing, will determine the city's future.

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A new defence policy

The revolution continues

May 10th 2001
From The Economist print edition

The tasks of America's armed forces are changing fast, not least in space

WILL no corner of the universe be left unturned in George Bush's defence revolution? Last week the president set out his new thinking on nuclear weapons and anti-missile defences. This week his defence secretary, Donald Rumsfeld, vowed to give greater priority to military activity in space. He will also soon brief the president on ideas generated by some 20 study groups who are reviewing America's conventional weaponry from top to bottom. How far Mr Bush really intends to shake up America's military establishment should be unveiled in a speech on May 25th.

On May 8th, Mr Rumsfeld hailed the "well thought-through, independent and objective" work of a panel of distinguished people who had warned of a "Pearl Harbour in space" unless America takes firmer control of the heavens. Since Mr Rumsfeld himself had chaired the panel, in all but the final stages of its work, his verdict was not exactly unexpected. He also set up a new post, to be filled by a four-star air-force general, to oversee America's space batallions. Some senior airmen, worried about the potential creation of a whole new service, are protectively dubbing themselves the "aerospace" force.

Is space really an area of growing vulnerability, given America's overwhelming preponderance in all forms of satellite technology? Possibly, say independent-minded people like Andrew Krepinevich of the Centre for Strategic and Budgetary Assessments. At a war game in Colorado this year, America and a China-like enemy fought an imaginary battle in the heavens—with both sides using micro-satellites to jam each other's signals and zap each other's electronics.

More realistically, the Gulf and Kosovo wars, in 1991 and 1999, revealed that America is increasingly dependent on space-based sensors for the conduct of conventional war. These look-outs could become vulnerable to miniaturised anti-satellite systems, or "space mines", developed by America's adversaries. Potential foes will also have increasing access to satellite intelligence from the commercial market, eroding America's surveillance advantage.

Meanwhile, back on the ground, in a process that has excluded most of the top brass, key congressional committees and the defence industry—the usual characters in the saga that leads to arms procurement—the Pentagon's planners have been re-examining America's security needs. A large part has been played by Andrew Marshall, a notably original mind by Pentagon standards, who has spent 50 of his 80 years pondering America's defences.

It emerged this week that one result of the re-examination will be to drop the dogma that the armed forces need to be able to fight two regional wars—for instance in Korea and the Gulf—at the same time. This doctrine has been the main justification for the armed forces' present size and structure: ten army divisions, a dozen aircraft-carrier groups in the navy, and 50 squadrons of fighters for the air force.

Since the two-war idea was conceived a decade ago, the conventional military strength of America's old adversaries has waned but other threats have increased—such as the ability of future Saddam Husseins, or stateless terrorists, to acquire crude missiles with which they can attack American bases or block access to ports in war zones. Rather than match the United States tank for tank, or ship for ship, it is assumed that future enemies will look for America's underbelly. The United States needs to be ready to meet a wider range of threats, such as cyber-warfare or terrorist strikes on its own soil or foreign bases.

America's military attention is shifting away from Europe, now that the cold-war Russian danger has gone, towards the Pacific. This has raised fresh question-marks over the Pentagon's long-standing plans to build two or three new kinds of manned fighter aircraft, designed in part for dogfights over Europe. Both the air force's F-22 and the multi-service Joint Strike Fighter, with price tags of $62 billion and $200 billion respectively, are under threat. A hard fight over spending priorities could begin in June, when proposals for the 2002 budget are unveiled.

Some defence-watchers worry that big changes could take place only at the expense of the readiness of existing forces, already, they say, at a post-cold-war low. It is not yet clear whether Mr Bush is prepared to invest the huge amount of political capital needed to scrap existing arms programmes and invest in new ones. “There is political support for defence spending, but it favours the old structures,” says Anthony Cordesman of the Centre for Strategic and International Studies.

If rhetoric turns into reality, he reckons, America could be on the verge of an historic shift away from the old-fashioned uses of power on land and sea, and towards greater reliance on missiles, long-range air power and information systems. But the process, he says, will take at least ten years—and “it may turn out to be, like Prohibition, a noble idea which fails.”

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Brazilian politics

Cracks open up beneath Cardoso

May 10th 2001 | BRASILIA
From The Economist print edition

Energy shortages and market jitters threaten the president's hopes that a quickening economy will see him through his political troubles

Get article background

Corbis

IT WAS a desperate move. On May 9th, the opposition was due to present a motion in Congress bearing enough signatures to force a wide-ranging inquiry into allegations of corruption by leading figures in President Fernando Henrique Cardoso's governing coalition. To buy a bit more time, Jader Barbalho, the president of the Senate and one of the opposition's main targets, simply cancelled the day's proceedings. But he knows that the opposition will try again.

Mr Cardoso has been fighting since February to stop the corruption inquiry, arguing that it would divert Congress from passing important reforms, and that the allegations should be investigated by the police and prosecutors, not posturing opposition congressmen. But Brazil's press continues to uncover yet more evidence of sleaze. This week Fernando Bezerra, who is from Mr Barbalho's party, resigned as regional-development minister, after it emerged that a failed business venture of his had received wads of public money. A wave of public indignation has forced increasing numbers of congressmen, including some from Mr Cardoso's own Social Democrats, to support an inquiry.

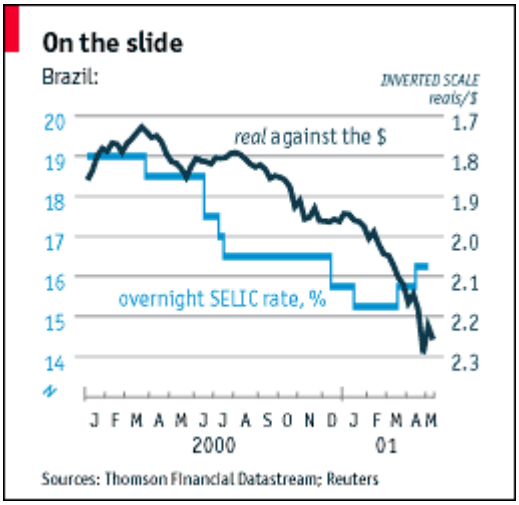
The political turbulence in the four-party coalition has been stirred up by the opening of a second inquiry. This is into claims that last year two senior pro-government senators had pressed an official to reveal how fellow senators had voted in a secret ballot to expel a colleague (also from the government block), who is accused of embezzling public money. The two senators—one is Antonio Carlos Magalhaes, the Senate's president until February—may have to choose between resigning their seats or being ejected.

Until recently, Mr Cardoso did not have to worry much about the storms in his coalition. Brisk economic growth was steadily restoring the president's popularity and authority, damaged after a devaluation in 1999. But now there are clouds over the economy, too. Investors' worries about a possible debt default by neighbouring Argentina have affected Brazil, causing its currency, the *real*, to slide, and obliging the Central Bank to raise interest rates twice since March (see chart). Meanwhile, a damaging electricity shortage looms, caused by drought and low water levels in hydro-electric dams and slow progress in building gas-fired power stations to meet rising demand. Industry faces severe power restrictions. Some car makers are talking of production cuts.

The danger for Mr Cardoso is that renewed economic worries and political unrest start to feed off each other. He has responded firmly, abolishing Sudam and Sudene, the development agencies for Amazonia and Brazil's north-east respectively. These agencies were once emblems of state-led development. Each is thought to have been defrauded of around 2 billion *reais* ($895m) in recent years by politicians and businessmen.

But the president's actions this week smacked of panic. He abruptly withdrew drastic measures to curb electricity use, including heavy fines, only days after these had been announced. Having let it be known that he expected the resignation of Mr Bezerra, whose portfolio included Sudam and Sudene, he then claimed to be shocked when the minister quit. Mr Bezerra said he would return to his Senate seat and vote for the corruption

inquiry, in the hope that it would clear his name. In another sign of panic, on May 9th, Francisco Dornelles, the labour minister, "temporarily" resigned, to take up his congressional seat in order to vote against the corruption inquiry.



The government's chief priority is to retain Brazil's hard-won economic stability in the face of the recent jitters in the financial markets. As well as raising interest rates, the government has increased from 2.7% to 3% its target for next year's primary fiscal surplus (ie, excluding interest payments). The message is that it is determined to keep both inflation and the public debt under control.

With a general election due next year, that will be tough. Most of Brazil's public debt is linked either to short-term interest rates or to the exchange rate. Further market nerves—or, worse, any default by Argentina—could make the debt burden rise, even if the government achieved its primary surplus. That might give greater appeal to demands from the opposition that Brazil should reschedule its debts in order to increase social spending. And unless Mr Cardoso regains a stronger grip on his coalition, any further privatisation of electricity-generating companies, which would bring new investment into the struggling sector as well as lining the government's coffers, might also face greater political resistance.

This gloomy prospect of economic weakening caused by political rows, currency jitters, falling surpluses and rising debt need not come to pass, argues Arminio Fraga, the president of the Central Bank. Whatever short-term bumps lie ahead, the *real*, he predicts, is unlikely to slip much further.

Brazil has indeed made remarkable progress under Mr Cardoso in improving its public finances and squashing inflation. For the first time ever, the government is on course to fulfil the terms of an agreement with the IMF, struck in late 1998. Brazil drew down only part of the IMF's loan, and has since repaid that. Even so, Gustavo Loyola, one of Mr Fraga's predecessors, suggests that a wise insurance policy would be to extend the IMF accord for a further year, to the end of 2002. That would reassure investors that Brazil would not be deflected from its economic targets by the election, and it would mean that IMF support would be available should things turn nasty. Not necessary, says Mr Fraga. But, given the lengthening list of political and economic worries, it might be helpful.

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Venezuela and Montesinos

Spy's rest home

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Peru's disgraced intelligence chief has left a trail

THE last time Vladimiro Montesinos, Peru's former intelligence chief, was seen in public was in October, when he landed at an air base in his home country after a brief sojourn in Panama. As befits a spy, he then vanished. Or rather, it seems, he went to Venezuela.

Peru's caretaker government wants Mr Montesinos brought to justice. For a decade, with the protection of Alberto Fujimori, Peru's disgraced ex-president, Mr Montesinos ran the country using bribery and threats, many taped by himself on video. Some $70m has been found in bank accounts linked to him. Mr Fujimori, now in Japan, this week said he paid his sidekick $15m to leave.

Mr Montesinos is known to have fled Peru on a yacht, sailing to Costa Rica via the Galapagos Islands. In mid-December he appears to have arrived in Venezuela, with a false passport. He had cosmetic surgery in a Caracas clinic to alter his unmistakable hooked nose and hooded eyelids. So much is confirmed by several witnesses, including Aurora Mejia, a woman friend now in custody in Peru. Photographs of a bearded Mr Montesinos before his surgery were leaked to the press, apparently by a source in Venezuela's political police.

Leaving the clinic, and an unpaid bill for about $10,000, Mr Montesinos disappeared again. But did he leave Venezuela? And if not, who is protecting him? Hugo Chavez, Venezuela's president, has some ties with Peru. In 1992, a group of his supporters were granted asylum there after staging a failed military coup. In power, Mr Chavez, a populist, cultivated Mr Fujimori, a conservative. Despite their other political differences, they had in common a dislike for representative democracy.

But no connection has yet been established between Mr Chavez's government and the prominent Venezuelans known to have been in touch with Mr Montesinos. Government spokesmen have nonetheless gone to extraordinary lengths to discredit the abundant evidence that the spy was in the country, even suggesting that he was murdered months ago.

That arouses suspicions of a cover-up. Rumours now place Mr Montesinos on a ranch in the *llanos*, Venezuela's boundless tropical grasslands, or even camped with the FARC guerrillas—for whom he once arranged 10,000 rifles—in the Colombian jungle. Not likely. Mr Montesinos is said to be pathologically scared of mosquitoes.

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Canadian politics

British Columbia's Liberal landslide

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From The Economist print edition

The province's New Democrats head for extinction

RARE is the politician who concedes defeat before rather than after an election. But that is what Ujjal Dosanjh, British Columbia's premier, did this week, saying that he accepted that he would not form a new government after the province's vote on May 16th.

That was realistic. A recent opinion poll gave a Liberal-led coalition 65% against 14% for Mr Dosanjh's leftish New Democratic Party (NDP). The main doubt is whether the NDP will lose all its 39 seats in the 79-seat provincial legislature, or merely be routed. In Canada, provincial politics has little bearing on the centre: the BC Liberals are more conservative than the federal party led by Jean Chrétien, the prime minister. Even so, the result will resonate.

The campaign has been a cakewalk for Gordon Campbell, a bland figure who after eight years as Liberal leader is still not popular. He has had no need to be. The NDP dug its own grave under Glen Clark, who was obliged to resign as the province's premier in 1999 over claims that he had helped a neighbour gain a casino licence (he now faces trial for fraud).

Voters remember Mr Clark for fiscal deficits, fudged budget figures, stiff tax increases and huge cost overruns on a ferry project. Mr Dosanjh, his successor, tried to clean up the mess, balancing the books and putting the ferries up for sale. Too late.

Mr Campbell, a former mayor of Vancouver, wants to stimulate the economy by cutting the province's basic rate of income tax to the lowest in Canada, easing regulation of business, and relaxing employment law. This goes down well in depressed lumber and mining towns and, unsurprisingly, with businessmen. In the decade the NDP has been in power, British Columbia has ranked close to the bottom among Canada's ten provinces in its economic performance and attractiveness to investors, according to BC Business Council, a lobby group. Vancouver has lost ground to Calgary, in Alberta, as a business centre.

But a change of government will not solve all the problems. Though Mr. Campbell talks of toughening a balanced-budget law, he has also admitted that his plan to reduce income taxes without making big spending cuts means renewed deficits in provincial finances until 2004. A Liberal plan to hold a referendum on aboriginal treaty negotiations could also stir up trouble. Native claims on timber and mining land have held back investment. After years of talks, several draft treaties are close to completion. But the Liberals oppose the model of self-government won by the Nisga'a in the first modern-day treaty, signed in 1998. Native leaders see the referendum idea as an effort to delay or deny settlements, and have promised a campaign of civil disobedience to block it.

None of these worries looks likely to save the NDP. Once Canada's third-strongest party, it has been reduced to a rump in the federal parliament. After next week, it will govern only Manitoba and (in coalition) Saskatchewan. In British Columbia, a traditional stronghold, it looks set to become an endangered species.

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Corruption in Mexico

A pact with the angels

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The government's war on graft is more noise than action so far

"COME on, no more bribes." So exhorts a radio advertisement that is part of a campaign against corruption launched earlier this year by Mexico's new government. In fact, Mexicans need little persuading. A culture of graft is widely seen as one of the worst legacies of seven decades of rule by the Institutional Revolutionary Party (PRI), which ended last year—and one of the hardest to erase.

Reuters

The risks of biting back

When laws and regulations are complex, bureaucracy is tortuous, and the wages of minor officials' are low, it is far cheaper to bribe than to be honest. Few Mexicans resist the temptation. Often they have little choice: the police and petty officials are notorious for demanding *una mordida* (a bite), as Mexicans call an everyday bribe. At the top, many a PRI politician from humble origins retired rich after a lifetime of dedicated public service.

To put matters right, the government of Vicente Fox has launched a plethora of well-meaning initiatives. These include an inter-ministerial commission to co-ordinate anti-corruption policies, a civic anti-sleaze council (not yet convened), and an anti-corruption pact with the private sector. More pointedly, the government has launched a slew of audits of public bodies and, like its predecessor, sting operations to expose bribe-takers—though these have so far resulted in just 15 junior officials being sacked and two being prosecuted.

Mr Fox's team has also proposed laws to reduce bureaucracy, make civil servants more accountable, open more of the government's workings to public scrutiny and establish freedom-of-information and data-protection acts. The comptroller's office, which heads the anti-corruption effort, is itself a target for change. Nine-tenths of its work is chasing corruption cases, but it recovers only 0.45% of the money stolen by the few people it manages to catch, according to Jose Octavio Lopez Presa, of the Mexican branch of Transparency International, a pressure-group. Francisco Barrio, the new comptroller and an ally of Mr Fox, plans to put less energy into prosecuting corruption and more into preventing it.

Critics see the new measures as attention-grabbing cosmetics that do not tackle the underlying problem. "The new team has not done a serious diagnosis of the problems in the public administration," says Juan Pablo Guerrero, a researcher at CIDE, a Mexico city university. The PRI kept control by buying the loyalty of different social groups, with government departments geared up to service those clientilistic bonds. They jealously guard information, even from each other. Different offices duplicate, or sometimes contradict, one another's work—the environment ministry, for instance, has been known to order reforestation where the agriculture department was promoting livestock pasture. There are countless unwritten rules. And, unsurprisingly, bureaucracy is aggravated by elaborate controls intended to curb corruption. In fact, Mr Barrio already proposes to cut his office's demands for information from ministries by two-thirds.

Although internal controls may be strong, external ones are weak. Congress and the courts have only recently become independent, and have much to learn about holding the executive to account. Government contracts are not well scrutinised, politicians and trade unions sometimes have a lot of sway in awarding them, and contractors who do bad jobs can too easily get away with it. There are few evaluations, either inside or outside government, of how well it performs.

Scrutiny should improve as more information is made public. But what kind of information? In its final years, the PRI published more budget details, but they were often not comparable from one year to the next. And the government could do more to end the culture of secrecy, including training officials to keep

proper files.

It would be unfair to expect too much too soon. Mr Fox's term is less than six months old. He faces huge tasks wherever he turns. Those bills that are ready have been held up in Congress by other business. There are other promising plans in the works, such as allowing Transparency International to monitor the comptroller's office, and getting outsiders to scrutinise big contracts. The Education Ministry will also consider teaching probity in schools so that, as Hugo Gutierrez, head of the inter-ministerial corruption commission, puts it, "We can improve everybody's ethical infrastructure." It may well take a generation to do it.

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China and Hong Kong

Jiang almost meets the Falun Gong

May 10th 2001 | BEIJING
From The Economist print edition

Will Hong Kong ban the people China hates?

Get article background

AP

THE campaign by China's president, Jiang Zemin, against the Falun Gong may be achieving partial success on the Chinese mainland, but supporters of the strange quasi-Buddhist movement in Hong Kong are far from cowed. During a visit to Hong Kong this week, Mr Jiang, who has made crushing the movement a personal quest, was subjected to the provocation of peaceful public protests by some 400 Falun Gong practitioners. Although he probably never caught sight of them—a huge police presence kept them well out of range—Mr Jiang was surely riled by their presence on sovereign Chinese territory.

The Chinese-appointed Hong Kong leadership bent over backwards to keep Mr Jiang's irritation to a minimum. At the only place where the Chinese leader made a public appearance, some 3,000 police were deployed to ensure security. That was 1,000 more than were stationed around the same place—the Hong Kong Convention and Exhibition Centre—when it was used in 1997 for the ceremonies to mark Hong Kong's handover from Britain to China. And in 1997 the police had even more dignitaries to worry about than at the function Mr Jiang attended, the Fortune Global Forum—a three-day gathering of business leaders, senior officials and luminaries such as Bill Clinton, with whom he had a friendly hour-long chat.

It was Mr Jiang's first visit to Hong Kong since his decision in July 1999 to outlaw the Falun Gong. Its followers plausibly estimate that since then many thousands have been detained, and scores killed. The problem for Mr Jiang is that the Falun Gong is a legally registered body in Hong Kong. To ban it there would require evidence of wrongdoing. As on the mainland, the Falun Gong's most egregious transgression in Hong Kong has been to stage occasional public protests that have mainly involved members' sitting in the lotus position or standing still and slowly moving their arms to harness the benign energy of the spinning wheel of the cosmos. Though China calls this disturbing public order, Hong Kong does not—at least, not yet.

As with other religious groups, Mr Jiang can find plenty of examples of people harming themselves or others. But his argument that the Falun Gong is as dangerous as Japan's Aum cult, which released poison gas in the Tokyo metro in 1995, is particularly unconvincing in Hong Kong, where the sect has a docile following of just a few hundred people.

Hong Kong bends the knee

Mr Jiang's struggle against the Falun Gong, part of a wider effort to keep control of a fast-evolving China, risks undermining the high degree of autonomy that Hong Kong is supposed to enjoy. In the build-up to Mr Jiang's visit, the Hong Kong immigration authorities turned away some 100 people at the airport who Falun Gong followers said were simply trying to enter the territory to join the sect's peaceful and officially authorised demonstrations. Many people in Hong Kong suspect that China secretly issued a blacklist of Falun Gong activists who were to be barred. Western governments, including Britain's and America's, have expressed concern about the exclusion.

This was not exactly the image of Hong Kong that the organisers of the Fortune Global Forum wanted to project. But Mr Jiang was at least careful in his address to the gathering not to go on the attack against the Falun Gong. Instead, he pledged that "come what may" China would never change its "one country, two systems" policy for running Hong Kong.

Yet this is unlikely to reassure many in Hong Kong, where the chief executive, Tung Chee-hwa, is widely regarded as a poor leader who, under pressure, would do the bidding of his Chinese masters even to the extent of jeopardising the territory's freedoms. Earlier this year, some pro-Beijing politicians in Hong Kong called for the swift enactment of a law against subversion that they felt would enable the government to outlaw the sect. The outcry this provoked from pro-democracy groups and the media appears to have deterred the government from taking up the suggestion, for now. "The government won't be rushed," says Michael DeGolyer of Hong Kong Baptist University. "Every time they touch such issues, there is an explosion."

Since the transfer of sovereignty, China has been generally astute in its handling of sensitive political issues in Hong Kong. Though many abroad expressed anxiety about the Chinese government's interference in legal proceedings concerning the rights of mainland Chinese to settle in Hong Kong permanently, in Hong Kong itself mainland efforts to restrict such migration were widely welcomed. Similarly, the barring of Falun Gong followers from entering the territory is unlikely to cause a huge public outcry in Hong Kong itself.

The Chinese authorities erred by publicly rebuking the widely admired head of Hong Kong's civil service, Anson Chan, for failing to give Mr Tung her full support. But after she announced her resignation in January, her successor was quickly named as Donald Tsang, who enjoyed high office under British rule and was close to China's most hated British representative in Hong Kong, Chris Patten. Since he took over last week, Mr Tsang has pleased the media by stressing the importance of press freedom.

But Mr Jiang sees the Falun Gong as a personal affront. The peaceful demonstration by some 10,000 practioners outside Communist Party headquarters in Beijing in April 1999 caught him unawares and suggested that he had lost his grip over a security apparatus riddled with Falun Gong sympathisers. There is a danger that, if Hong Kong fails to keep the Falun Gong in check, Mr Jiang will increase the pressure on Mr Tung to introduce an anti-subversion bill. That would cause alarm among many groups and individuals who, if they lived on the other side of the border, would be considered subversives.

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Chinese arrests of academics

When scholars become suspects

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From The Economist print edition

Big trouble for free thinkers

THE detention of five scholars, apparently on suspicion of espionage, has lent weight to long-standing criticism that the Chinese government is an enemy of academic freedom. All five are originally from China but have close foreign ties. Wu Jianmin and Li Shaomin are American citizens; Gao Zhan and Qin Guangguang have permanent-resident status in the United States; and Xu Zerong is an Oxford-educated permanent resident of Hong Kong. So far only Miss Gao, a specialist at American University in Washington, DC, on women's issues in China, has been formally charged—with espionage for "overseas intelligence organisations".

In two petitions with some 500 signatures between them, China specialists around the world have urged the government either to release those detained or to charge and try them openly, and to end what appears to be a campaign of intimidation. At the same time, some are putting off visits to China and pulling out of China-based research projects.

China-watchers are divided about the motives behind the detentions. All five detainees specialise in the social sciences. Some think China's government frets that such Chinese-born scholars are all too well equipped to delve into the country's many hidden corners.

According to Miss Gao's lawyer, Jerome Cohen, the Chinese authorities have provided few details about what she is supposed to have done wrong. He says the little that China has said about the case so far "is total blarney". When the police detained Miss Gao on February 11th at Beijing airport, they also held her husband, Xue Donghua, and placed her five-year-old son, an American citizen, in a Beijing kindergarten for 26 days without notifying American consular officials of their action. Mr Xue and the boy are now back in the United States.

Mr Cohen handled a similar case in 1999, when Song Yongyi, a scholar based in America, was held for six months on a charge of "providing intelligence to foreigners". China released Mr Song, saying he had confessed his guilt, which he denies. Mr Cohen says such behaviour is alienating China scholars everywhere, many of whom have been forceful advocates of a softer line towards the country. America, meanwhile, has warned its citizens, especially those of Chinese origin, that visiting China could be dangerous if they have ever criticised the Chinese government.

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Islam in Indonesia

God's warriors and Wahid's

May 10th 2001 | JAKARTA
From The Economist print edition

The idea of Muslim fighting Muslim in a holy war over politics has even riot-weary Indonesians perplexed. The story goes back nearly a century

Get article background

Reuters

For ever gentle?

MUSLIMS have been signing up for weeks to die for Indonesia's blind president, Abdurrahman Wahid. If he is toppled, they threaten to slit the throat of his chief critic—a noted Muslim scholar, Amien Rais. Last week, lines of riot police with shields barely stopped a crowd of stick-wielding Wahid supporters from marching on the legislature as it debated its second censure motion against him. If he goes, as he may by July or August, many fear a religious bloodbath. Both men can call on tens of millions of supporters.

About a third of Indonesia's 210m people are supporters of two huge religious organisations, Nahdlatul Ulama (NU) and Muhammadiyah, though it should be noted that they are followers, not paid-up members. NU is the world's largest Muslim group, some say the largest organisation of any kind in the world, and Mr Wahid used to lead it. Muhammadiyah is not far behind, and Mr Rais used to lead that. Both enjoy deep loyalty from their members. Historically, the groups are rivals and their supporters clash frequently.

Under Suharto's dictatorial regime, the two largely stayed out of politics. But now everything has changed. Mr Wahid is in the presidential palace and Mr Rais is speaker of the supreme assembly that is on the verge of impeaching him. It is an explosive situation.

At first glance, the two groups are mirror images. Both were founded in the early 20th century, by two men who studied at the same seminary in Mecca. Both have many subsidiary organisations. The exact strength of neither is clear. But the NU is definitely larger. It claims up to 60m supporters, although independent sources put its strength at "only" 35m-40m. Muhammadiyah claims about 30m supporters. Both operate nationwide. Both make widespread use of Arabic. Both supported Indonesia's 1945-49 war of independence. Both organised militias which helped to liquidate bloodily the Indonesian Communist Party in the mid-1960s. The NU's Banser militia still openly exists and regularly drills in military uniforms; its members receive training, and perhaps firearms, from the army and police. Muhammadiyah retains links to paramilitary bodies as well. When Mr Suharto fell in 1998, Mr Wahid and Mr Rais were the two groups' respective leaders in the struggle for democracy.

Yet their rivalry is old and deep, and when Mr Wahid's NU supporters rampaged through east Java in February, they attacked Muhammadiyah offices, alongside those of Indonesia's ruling party, Golkar, in Suharto's day. Now they are threatening to slit the throat of Mr Rais.

Though both profess to be keenly Islamic, they are as much tribal as religious. Indonesia may be the world's largest Muslim country, but Islam's roots do not run deep. It arrived through trade with Arabia and India. Aceh in Sumatra was the first area to convert to Islam, in medieval times. Only in the 16th century, when the Portuguese were already in Indonesian waters, did Islam replace Hinduism as the main religion in Java.

Getting the Javanese to abandon the religion they had followed for more than 1,000 years was not easy. The men who brought Islam to Java are remembered as the *wali songo* or "nine saints". They had to compromise a little. Many Javanese rituals predate Islam in form, although they have been filled out with Muslim prayers.

Hashim Ashari, Mr Wahid's grandfather and the founder of the NU, traced his ancestry back to

Muhammad, via the men who brought Islam to Java. In the early 20th century he studied in Mecca alongside a man named Ahmad Dahlan.

Dahlan founded Muhammadiyah in 1912, when most Indonesian Muslims were illiterate. He set out to educate them in the true nature of Islam, austerely rejecting pre-Islamic tradition. Today Muhammadiyah has schools across the country and more than 100 universities or institutes of higher education.

In 1926 Ashari founded the NU, partly as a reaction to Dahlan's growing influence. Its basic beliefs about Islam are not very different to Muhammadiyah's, with a couple of major exceptions. It acknowledges the classical schools of Islamic thought and does not reject local traditions, seeing them as a form of *dakwa*, or missionary work. It reveres the Islamic scholars, known by the Arabic term *ulama* or the Javanese term *kiai*, whose influence remains strong in east Java.

The NU is more amorphous than Muhammadiyah. Central and east Java, its areas of strength, are two of the most densely populated parts of Indonesia and the areas that were first converted by the "nine saints". The NU is really a superstructure over the existing network of local Islamic scholars. Many of the *kiai* still alive studied with Mr Wahid's grandfather. Yahya Staquf, one of Mr Wahid's official spokesmen, says these local *ulamas* often have more influence than the NU's official leaders. As it happened, the men who marched on the legislature ignored (half-hearted) appeals from Mr Wahid to go home, but were eventually convinced by their local *kiai.*

Yokels and zealots

NU supporters tend to be a very different crowd to Muhammadiyah's. The NU is more of a rural phenomenon, and the men who tried to march on the legislature recently were mostly farmers. According to Mr Staquf, they read attacks on Mr Wahid by Mr Rais as attacks by Muhammadiyah on the NU itself. "It is a natural reaction of NU people," says Mr Staquf.

Muhammadiyah supporters have been prominent in the campaign to oust Mr Wahid. Their version of Islam is much less forgiving than the NU's. They judge the corruption allegations against him and his relatively soft line on largely Christian separatists in Irian Jaya in harsh terms. In west Sumatra there has been talk of blood if he is not prepared to go.

The danger is that this fanaticism could be hijacked by even more radical groups, of which there is no shortage. Muhammadiyah's current chairman, Syafii Maarif, says he was recently approached by members of a "Mujahideen Council". They wanted the organisation to be placed under their control, saying an Islamic state with strict Islamic *sharia* law was the only answer to Indonesia's problems. Virtually all non-Muslim areas of Indonesia might try to secede if that happens. But the idea is gaining support.

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The Philippines' election

The charm after the storm

May 10th 2001 | MANILA
From The Economist print edition

Gloria Macapagal Arroyo tries to befriend the poor

HAVING won back the streets, Gloria Macapagal Arroyo resumed the battle this week for hearts and minds. With congressional elections looming on May 14th, she concentrated much of her effort on poor voters, thousands of whom turned violent last week in support of Joseph Estrada, the former president and underclass hero whom Mrs Arroyo helped topple in January. Her initial response, after a mob had tried to storm the presidential palace, was to get tough, declaring a "state of rebellion" and approving warrantless arrests of alleged instigators, including 11 opposition politicians. Many Filipinos approved; but to reassure the others, she has been emphasising her softer side ever since.

EPA

Someone wants your vote

She started with a visit to Mr Estrada, whose arrest on a charge of "economic plunder" had set off the protests. Since that charge precludes bail, Mr Estrada remains imprisoned in a military barracks in Manila. When asked about their meeting, Mrs Arroyo, who served as Mr Estrada's vice-president before he fell, stressed her interest in his living conditions.

Her aim was to fend off claims of vindictiveness without giving ground on the need for Mr Estrada to stand trial, which would infuriate her middle-class supporters. They saw the evidence against him during a failed impeachment trial and are convinced that he is a crook. Most of Mr Estrada's supporters may agree, but do not see much difference between him and other politicians.

After finessing the Estrada problem, Mrs Arroyo directed a charm offensive against his impoverished supporters. She visited some rioters still in detention and seemed to persuade a few that she could provide better plans to tackle poverty than her predecessor. Manila newspapers published a few testimonials from the converts. She also offered to donate some of her family's vast land-holdings to a land-reform scheme that she had already formed before Mr Estrada's arrest.

Though many hardened Estrada supporters will not budge, Mrs Arroyo may be working a more pliable crowd than last week's riots suggest. Polls taken before Mr Estrada's arrest suggested that poor voters were themselves divided, and would back her People Power Coalition (PPC) candidates for eight of the 13 contested Senate seats—the magic number she needs to gain a majority in the upper chamber. Moreover, with help from rock-solid middle-class support, those eight candidates and a popular independent were cruising well ahead of Mr Estrada's coalition, leaving his senators scrambling against each other, and their PPC opponents, for the other places in the Senate.

Those laggards will no doubt hope to gain a boost from their icon's arrest, and by complaining of persecution at Mrs Arroyo's hands. But Mahar Mangahas, who heads one of the Philippines' two big polling outfits, pointed out this week that the popularity of Corazon Aquino, a former president, rose after two attempted coups in the 1980s, and suggested that Mrs Arroyo would get a similar boost.

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Caspian pollution

Oil, caviare and worried eagles

May 10th 2001 | ALMATY
From The Economist print edition

The hidden costs of exploration in the Caspian

BY OIL-INDUSTRY standards, the spill was a tiny one, just 210 litres (55 American gallons). But the Kazakhstan government was in no mood to take chances and told the polluter, OKIOC (Offshore Kazakhstan International Operating Company), to suspend its drilling in the Kazakh sector of the Caspian Sea while the incident was investigated.

For years, ecologists have given warning that the development of Kazakhstan's oil deposits in the Caspian threatens the sea's flora and fauna. The Caspian, slightly larger than Germany, is a seasonal habitat for birds migrating from Europe and Asia, such as the flamingo and the rare white-tailed eagle. It is home to about 400,000 seals and—crucial to caviare-lovers—more than 90% of the world's sturgeon. Last year, the death of thousands of seals brought public emotions to new heights.

Kazakhstan's government is proud of OKIOC's oil discoveries in the Caspian. The Kashagan field could turn out to be a big producer. But the government is keenly aware that large-scale oil production may come at a price. "They have clearly accepted responsibility to make that balance," says Marian Kay Thompson, an American official who took part in a conference on oil-spill policy sponsored by the American government in the Kazakhstani capital, Astana, in April. Miss Thompson says she is impressed that Kazakhstan has at least developed a plan to handle oil spills. But it is not yet clear which ministries will have what responsibilities. In a country practically run by one person, President Nursultan Nazarbaev, no one else wants to go out on a limb.

One problem has been created by the 100-200 oil wells in western Kazakhstan that were abandoned when the country was part of the Soviet Union. A few even date back to tsarist times. Because of the rising level of the Caspian Sea, these onshore wells have since then been covered with water and have in effect become offshore wells. No one knows where they all are. Kazakhstan has to find them and stop them from leaking, says a western expert. The cost of fixing just one abandoned well is put at $100,000.

One old well leaked in January, causing a level-2 spill (on a scale of one to three). The government called for outside help. According to calculations in local newspapers, the clean-up cost $20m. The government fears that other, bigger, leaks are possible from the old wells. Wise eagles should take care.

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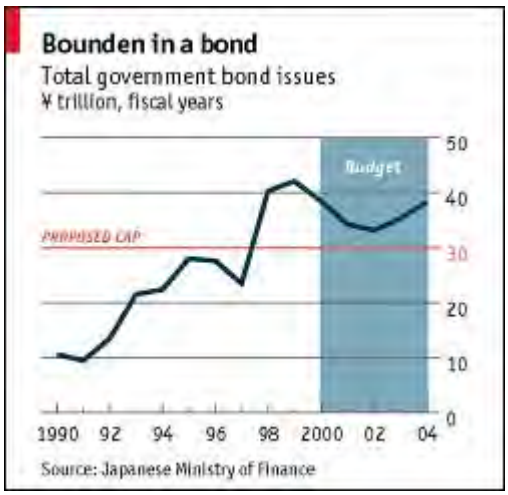
Unconvincing reform in Japan

Eyeing the debt mountain

May 10th 2001 | TOKYO
From The Economist print edition

Junichiro Koizumi needs to give more details

"REFORM with nothing sacred," boomed Junichiro Koizumi in his maiden policy speech to parliament this week. Really? Japan's new prime minister was certainly generous with his promises, pledging that his "ceaseless reform cabinet" would battle to change politics, the economy, society and government. Now all he has to do is to fill in the details.



One pressing subject on which Mr Koizumi did offer some particulars was his promise to clean up the government's awful finances. A decade of deficit spending has saddled Japan with ¥689 trillion ($5.6 trillion) of debt, making it the most heavily indebted country in the world. The budget deficit is nearly 10% of GDP. On present trends, the government's debts will double in less than a decade.

And that is the good news. In some ways, Japan's position is even worse than it looks. Long-term interest rates of barely more than 1% keep the government's interest bill low. In fact, thanks to falling interest rates, annual interest payments have hardly budged since 1986 even though, over the same period, the government's debts have nearly tripled. What really rattles Japan's budget planners is the thought that rates might start to rise again. At worst, this could happen uncontrollably, with investors charging ever higher rates as the government's finances grow weaker and weaker. That way lies chaos, a run on the yen and economic collapse.

Mr Koizumi promises a two-stage clean-up. As a first step, he says, the government will limit the bonds it issues in the year beginning next March to ¥30 trillion. Then, much harder, he will set about returning the budget to "primary balance", which is achieved when new loans raised go only towards servicing existing debts. This should eventually bring the growth of the government's debts under control.

Quite how Mr Koizumi plans to achieve these feats, however, is not entirely clear. The Finance Ministry thinks it will need to issue ¥33.3 trillion of bonds in 2002, suggesting that, if Mr Koizumi is to meet his first pledge, he needs to find more than ¥3 trillion of budget cuts or extra tax revenues just to stay below the cap—itself only a start, given the mountain of accumulated debt. With the economy weakening, Mr Koizumi, in a second speech this week, appeared to have ruled out a tax increase. But if he is to attack the debt mountain, he will have to raise taxes, and by a staggering amount.

What is now powering the government's ever-deeper descent into debt is the growth in its social-security and health-care bills. Since 1970, health spending as a proportion of GDP has doubled, and social-security spending trebled, while the government's revenues, about 30% of GDP, have grown much more modestly. Japan's problem is that it is financing European standards of welfare with American levels of taxes, and has to borrow the rest.

The long-term solution is the sort of tax rise Mr Koizumi shows no stomach for. Heizo Takenaka, the new economics minister, is sitting on one figure. In 1998, as an adviser to a previous government, Mr Takenaka helped to draft a plan to restore the budget's primary balance by 2007. Higher corporate taxes, went the thinking then, would hurt Japan's competitiveness. Higher income taxes would take away the incentive to work. That left consumption tax, which, said Mr Takenaka, would have to rise from 5% to 14%.

Others put the number higher still. Andrew Smithers, a London-based economist, argues that, because Japan's ageing population will drive pensions and health-care costs ever higher, the government needs to

raise taxes now by the equivalent of 15% of GDP.

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Italy's general election

Will Silvio Berlusconi romp home for the right?

May 10th 2001 | ROME
From The Economist print edition

Despite the allegations of wrongdoing hanging over the leader of Italy's right, he still looks poised to win power

IT HAS been the nastiest and oddest campaign in the living memory of most Italians, perhaps because it has not felt like a general-election contest at all, more like a referendum. The simple question has been: do you want Silvio Berlusconi as your prime minister—yes or no? This has personalised the election as never before.

In the event, if the pollsters are to be believed, yes is going to be the most common answer. So, come May 13th, the media tycoon who founded his own party, Forza Italia (Let's go, Italy), less than eight years ago and within months had become prime minister for an unhappy stint in 1994, is likely to be back. His tangle of legal troubles and a bunch of conflicts of interest have evidently left a large portion of the electorate unbothered. The Italian constitution does not say that Italy's president is formally obliged to ask the leader of parliament's largest party to form a government. In practice Carlo Azeglio Ciampi has no choice.

The real question, according to most commentators, is how big Mr Berlusconi's victory will be. The left, most of it campaigning collectively under the Olive Tree umbrella, still hopes that Mr Berlusconi's coalition of the right, known as the House of Freedoms, will fall short of winning an outright majority of seats in parliament, at least in the Senate.

But the momentum is behind Mr Berlusconi. Italy's middle class is apparently convinced that it has at last found its true champion. And Forza Italia's two main allies, the post-fascist National Alliance and the once-separatist Northern League, should give him a further fillip. The alliance is expected to do well in its southern heartlands, and the league, though not as popular as it was, will probably do well enough up north, where the combined right should sweep the floor.

The left has been further hampered because its coalition embraces a much messier array of parties than the right's. Moreover, since winning in 1996, the left has had three different prime ministers. Francesco Rutelli, a handsome 46-year-old former mayor of Rome with little national experience and still less authority over his rowdy hotchpotch of a coalition, would be its fourth. Few people, friend or foe, put much faith in his ability to stay in power even a couple of years, let alone five.

Take your party pick

	Leader(s)	Background	Affiliation	% of vote in 1996
Refounded Communists	Fausto Bertinotti	Diehard communists	–	8.6
Italian Communists	Armando Cossutta	Split from above in 1998	Olive Tree	–
Democratic Left	Walter Veltroni & Massimo D'Alema	Ex-communist, now social democratic	Olive Tree	21.1
Margherita (Daisy)				
Democratic Union for the Republic	Clemente Mastella	Centre, ex-Christian Democratic	Olive Tree	–
Democrats*	Arturo Parisi & Francesco Rutelli†	Centre-left	Olive Tree	6.8
Italian Renewal	Lamberto Dini‡	Centre	Olive Tree	4.3
People's Party§	Pierluigi Castagnetti	Centre	Olive Tree	–
Girasole (Sunflower)	Enrico Boselli Grazia Francescato	Centre-left Socialists Centre-left Greens	Olive Tree Olive Tree	– 2.5
Bonino's List (Radicals)	Emma Bonino & Marco Pannella	Centre	Independent	1.8**
Di Pietro's List: Italy of Values	Antonio Di Pietro††	Centre	Independent	–
European Democracy	Sergio D'Antoni Giulio Andreotti	Centre-right; Catholic trade unionist Centre-right, former Christian Democrat	Independent but likely to back right	–
New Socialist Party	Bobo Craxi‡‡	Centre-right	Pro-House of Freedoms	–
Forza Italia	Silvio Berlusconi	Centre-right	House of Freedoms	20.6
Biancofiore (White Flower)	Pier Ferdinando Casini Rocco Buttiglione	Christian Democratic Centre§§ Christian Democratic Union§§	House of Freedoms	5.8
Northern League	Umberto Bossi	Federalist, ex-separatist	House of Freedoms	10.1
National Alliance	Gianfranco Fini	Post-fascist, now right	House of Freedoms	15.7
Tricolor Flame	Pino Rauti	Neo-fascist	House of Freedoms	–

*Formerly known as Prodi's List, led by Romano Prodi, the Olive Tree coalition's successful candidate for prime minister in 1996
†Olive Tree coalition's candidate for prime minister, a former Radical and a former Green ‡Foreign minister
§Leftish wing of former Christian Democrats; won 11.1% in 1994 before split **Won 8.5% in European elections in 1999
††Anti-corruption magistrate ‡‡Son of late Bettino Craxi, former Socialist prime minister convicted of corruption
§§Fiercely pro-family values, anti-abortion, pro-church

Source: *The Economist* *This list is a selection*

Who turned the election into a personal referendum, then? Mr Berlusconi, 64, says that, from the start, the left was itching to attack him personally. No, says the left, that was always Mr Berlusconi's plan. They are both right. The left decided early on that the only thing that might bind liberals, socialists, communists, Catholics, Greens and assorted free-marketeers under their untested leader was their common enmity towards Mr Berlusconi. *Il Cavaliere* (the knight), as he is known, graciously accepted this unintended gift, as he saw it, promptly turning the campaign into an ego trip. The House of Freedoms' logo, strapped across virtually every billboard, is simply BERLUSCONI. Posters display just his smiling face. A glossy magazine containing Mr Berlusconi's life-story has been mailed to every Italian home.

In return, the left has attacked him relentlessly, *ad hominem*. Mr Berlusconi has merrily hit back, denouncing the ex-communists' Massimo D'Alema as "an old Bolshevik". Umberto Bossi, the Northern League's demagogic, gravel-voiced leader, has weighed in, calling Giuliano Amato, the left's outgoing prime minister, "a Nazi dwarf"; left-wingers working for RAI, Italy's state-owned television, should "be rounded up at night and dealt with".

There was just a moment when Mr Berlusconi seemed to be knocked off balance. That was when various foreign publications, including *The Economist*, France's *Le Monde*, Spain's *El Mundo* and Germany's *Süddeutsche Zeitung*, none except *Le Monde* identified with the left, castigated him for his murky business past. He dismissed the allegations as "rubbish" and accused the left of staging an international plot against Italy. This may have struck a nationalist chord among voters. Mr Berlusconi's opinion-poll lead has held up well.

One casualty of the campaign has been information. The right published its own manifesto only on May 7th—on the Internet. The left distributed a booklet with a fairly vague set of proposals, but when Mr Rutelli has tried to promote them on trips across Italy, journalists have invariably dragged him back into yet another bout of personal exchanges with Mr Berlusconi, who has refused to hold a proper debate with

him, on television or elsewhere. Asked why, he has repeatedly declared that “Rutelli is not a leader, just a spokesman with a pretty face.”

Amid all this animosity, neither group has said much about policies, despite the long list of Italy’s problems that need attention. Questions about the European Union have been entirely absent, though that is an area of potential division within the right. Forza Italia favours much more integration than in 1994, though the Northern League’s Mr Bossi sounds virulently anti-EU, accusing “European technocrats and paedophiles” of seeking to impose their will on Italy if the left wins.

Crucial issues such as pensions reform or control of broadcasting in the event that Mr Berlusconi wins have been barely touched upon. The magnate has assured voters that he will deal with conflicts of interest if he wins, perhaps by setting up a blind trust, but it is hard to see how any trust could be blind unless the empire were sold off and the proceeds reinvested.

The right sounds tougher than the left on illegal immigration, but both sides have offered few details. Can Mr Berlusconi manage to cut taxes and at the same time spend massively on infrastructure, as he promises, without swelling the country’s public deficit, in contravention of the EU’s stability pact? “I’ll cut [overall] spending,” he said breezily this week. “An entrepreneur knows how.” A lot of Italians seem inclined to believe him.

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Italy's dogged independents

Squeezed out?

May 10th 2001 | MILAN
From The Economist print edition

A handful of independents are trying to win seats that could hold the balance

ON MAY 13th some 49m Italians will be entitled to elect 315 senators and 630 deputies to parliament. Members of both the lower house and the Senate are elected by a combination of first-past-the-post for three-quarters of the seats and proportional representation for the remaining quarter. But to have any of those seats distributed under PR, a party must secure at least 4% of the national vote. All the parties, including tiddlers, that have signed up to join one of the two main blocks, on left or right, can be confident of getting at least some seats by PR. The old-guard Refounded Communists, standing alone, should comfortably cross the threshold. But the small parties that must fight hardest are the trio that have refused to join the big alliances.

The first is European Democracy, founded by Sergio D'Antoni, a former leader of the Catholic trade union. Mr D'Antoni, a Sicilian, is backed by Giulio Andreotti, the old fox of Italian politics, seven times a Christian Democratic prime minister, who was acquitted two years ago after long trials for murder and for being the Mafia's main political godfather.

A second small party striving to cross the 4% threshold is Italy of Values, a one-man show put on by Antonio Di Pietro, the most celebrated of the *mani pulite* magistrates, who comes from Molise, south-east of Rome, but who made his judicial name in Milan. In due course he decided to invest his popularity in politics. He was first courted by Mr Berlusconi, then served briefly as a minister in Romano Prodi's government in 1996, and managed to quarrel with just about everybody. Some people admire his bluntness.

The third independent party is also identified with one person: Emma Bonino. Liberal in economics and social issues, it is the latest incarnation of the Radical Party and its maverick leader, Marco Pannella. Ms Bonino was an effective European commissioner in Brussels and her group won 8.5% in elections to the European Parliament two years ago. She has tried in vain to rouse Italians into discussing important ethical questions concerning such things as genetic research, euthanasia and food safety. She was so incensed by the raw deal she got from Italy's television stations, which have generally carved up air-time between the two main blocks, that she briefly went on a "thirst strike" which doctors persuaded her to end last week.

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Germany's pension reform

Go private, says the state

May 10th 2001 | BERLIN
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By 2008, Germany's state pension scheme will look very different

DESPITE continuing resistance from the opposition Christian Democrats, Chancellor Gerhard Schröder's pension-reform plans, the most radical in Germany for nearly half a century, are expected to clear their final parliamentary hurdle on May 11th. Last-minute government concessions on child benefit, widows' pensions and home ownership now look certain to ensure the bill's approval in the opposition-dominated Bundesrat, the second chamber, which speaks for Germany's 16 state governments.

Like many other European countries with similar pay-as-you-go state pension schemes, Germany faces a demographic time-bomb. Low birth rates and longer life expectancy mean that over the next 30 years the proportion of Germans over the age of 60, the average retirement age at present, is expected to rise from a fifth to a third. The number of workers shouldering the tax burden is due to fall from two per pensioner to one.

So? Slash pensions? Jack up contributions? Or raise the pension age—to as high as 75, according to one study? No, the government has opted for another way out, revolutionary by German standards: a privately funded, though also state-supported, pension scheme. It hopes thereby to be able to hold down the cut in state benefits and the rise in state contributions, while leaving the legal retirement age of 65 untouched, for the time being.

Compulsory contributions to the state scheme, now 19.3% of wages, jointly paid by employer and employee, are not meant to rise above 20% for the next 20 years, nor above 22% by 2030. At the same time, the government promises, the average pensioner's benefits will not fall below 67% of the national average wage when he retires, as against 69% now—though he will have to work and contribute for 45 years, as against the 37 years that is now the average.

And now for the novelties: private-sector, personal pensions, or company schemes. Such things do exist, but they are few. In future, under the plan which is due to be fully operational by 2008, the state will provide tax breaks and subsidies of up to DM20 billion (about $9 billion) a year to encourage workers to contribute up to 4% of their earnings into such schemes. In the long term these could supply as much as 40% of overall pension income, with 60% still coming from the state, compared with 85% today (versus 65% in Britain and 45% in the United States).

Inevitably no one, including employers and trade unions, is fully satisfied. The Christian Democrats, still desperately searching for something to bash the government with, object to just about everything. But, thanks to the perks offered to individual states, they will not defeat it in the Bundesrat. Though much amended over the past 18 months to win support, the scheme is far more radical than anything the Christian Democrats proposed during 16 years in power. Not, maybe, that they could have pushed anything radical through: as their parliamentary group's deputy leader admits, "We could never have persuaded the trade unions."

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Charlemagne

Bernard Tapie

May 10th 2001
From The Economist print edition

Why one of France's most controversial figures is more popular than some of its more high-minded politicians

THE hair is glossy, the grin broad, the charm as potent as ever. When Bernard Tapie faced the press last month as the new "sporting director" of Olympique de Marseille, the soccer club of France's second city, it was almost as if a rock star had come to town. Moreover, this particular star, joshing with the press and waving to the fans, is 58, even older than Mick Jagger. So is it jealousy that makes a po-faced establishment—*Le Monde* has been particularly scathing—treat Mr Tapie with a certain disdain, even rancour? Is it snobbery that prompts outrage at the speculation that the working-class Mr Tapie may, despite his denials, want to revive a political career that made him the Socialists' minister of urban affairs under François Mitterrand?

Well, not entirely. The judicial facts of the life of Mr Tapie—or "Nanard", as he is known, affectionately, to the fans—during the second half of the 1990s would probably horrify polite society anywhere: five months in prison for having bribed a rival soccer team and suborned a witness; two suspended prison sentences, bankruptcy, a ban on corporate activity and the loss of his civil rights for company fraud; expulsion from the parliaments of both France and the European Union. In other words, Mr Tapie, having dishonoured soccer and cheated his shareholders, does not deserve to be welcomed back into polite society.

But was he ever truly welcome? Corruption in high places, both in politics and in business, is hardly unusual in France. What is new is the enthusiasm of a handful of investigating judges to do something about it. Since the mid-1990s the results have been dramatic. For example, Roland Dumas, a former foreign minister and until recently head of the Constitutional Council, the country's highest court, will this month be judged on charges of accepting bribes. Indeed, a cloud of suspicion rests even on the summit of the French state, with President Jacques Chirac having to cite the constitution in order to avoid an investigating judge's summons over the illicit financing of political parties. Yet, for all the judicial energy, the popular assumption is that the elite protects its own, and that few punishments will be as severe as Mr Tapie's.

The assumption may well be wrong, but it is founded on a "them and us" view that is hard to deny. For all its revolutionary and egalitarian pretensions, France is run, both in politics and business, by a remarkably small "old boy" network—witness the *énarques*, graduates from the Ecole Nationale d'Administration (ENA), who pack the government of Lionel Jospin (an *énarque*, naturally) and the membership of Medef, the bosses' organisation led by Ernest-Antoine de Seillière (an *énarque* too). Mr Tapie, born in one of the unlovely suburbs of Paris and educated as an electrical engineer, was never likely to be part of that coterie. Indeed, Elisabeth Guigou, now France's employment minister (yes, another *énarque*), dismisses him as a "sexist boor".

But whatever his faults, Mr Tapie has something Mrs Guigou, defeated in March in her bid to be mayor of Avignon, must surely envy: the popular touch. According to a recent study, in the *banlieues*—the crime-ridden, mixed-race, public-housing estates that ring France's bigger towns—the young, otherwise alienated from politics, have one political villain and one political hero. Their villain is Jean-Marie Le Pen, the leader of the far-right National Front. Their hero is Bernard Tapie, a *banlieusard* like them, who has opposed Mr Le Pen at every turn.

Arguably, the hero-worship is blind infatuation. After all, while the Marseilles fans struggled to find a job, Mr Tapie's financial sins as owner of their club and of businesses such as Adidas let him live the life of a king, with a fine house in Paris and a giant yacht on the Côte d'Azur. Moreover, the reward for fixing a French league soccer match so that Olympique de Marseille's players would be fit enough to win the European Cup a few days later was for the club then to be stripped of its titles.

But so what, think the fans. What they like about Nanard is his guts. Rather than slink away after his

prison term, he has bounced back into the limelight: a part in a 1996 film directed by Claude Lelouch; a starring role early last year on the Paris stage in “One Flew Over the Cuckoo’s Nest”; a couple of radio and television talk-shows; a novel (“Eyes Too Big”); even a record with a rap star, Doc Gyneco. And the elite, too, must have a sneaking regard for his cheek: he may be bankrupt, but, as the ill-paid employee of a company managed by his children, he lives mostly beyond his creditors’ reach. True, he has 15% of Olympique de Marseille, a stake offered by the club’s president in the hope that Nanard will save the club from relegation. But that has cost Mr Tapie merely a symbolic single franc.

Ah, that lovable rascal

Indeed, perhaps a better word from now on will be not so much guts as revenge. Mr Tapie is not exactly out of the woods. Eva Joly, a tenacious magistrate, still has a few questions to ask; he is in theory barred from politics till 2004. He owes FFr880m ($119m) to his creditors and FFr150m to the taxman. But what if he wins his case for damages of FFr6.5 billion against Crédit Lyonnais, the bank that sold Adidas on Mr Tapie’s behalf after he became a minister in 1992 and which, Mr Tapie alleges, made a huge and fraudulent profit on the deal at his expense? At a stroke Nanard would be not just popular but also, once again, rich.

Would the elite be outraged? Probably. But in the meantime, they would do better to draw two lessons from Nanard’s renaissance. The first is that the public, from football fans to the voters in recent local elections, seem surprisingly indifferent to corruption in high places. The second is that charm, warmth and the popular touch are considerable assets. In other words, Lionel Jospin, France’s austere Socialist prime minister, may be the epitome of integrity, but he is by no means sure to win next spring’s presidential election—and scandal-dogged Jacques Chirac, who loves pressing the electoral flesh, is by no means sure to lose.

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Russia's faltering economy

The glow begins to fade

May 10th 2001 | MOSCOW
From The Economist print edition

The country may get poorer, again

SOBERING up, a hang-over looming, and pretty ill to boot. That, crudely, is the state of the Russian economy as the boost given by the huge devaluation of 1998 wears off.

Economic growth last year was a record 8.3%. This year, the government says, it will be only half that. President Vladimir Putin's gloomy economic adviser, Andrei Illarionov, thinks even that is optimistic. The annual inflation rate last month jumped to 25%. The government's forecast of 12% for the whole of this year now looks much too hopeful. As things stand, the economy will by 2002 have lost almost all the competitiveness gained in 1998.

Reading too much into Russian statistics would, as ever, be unwise. At best, they offer a series of blurred snapshots, capturing trends in the bits of the economy that are recorded on forms. The black economy is still huge—up to half of GDP, by some estimates. Still, it is clear both that Russian business is slowing down and that inflation is hotting up.

By past standards, the unpleasantness still looks pretty mild. Thanks to last year's boom, the public finances are solid; there is a huge trade surplus of $60 billion. The government trumpets sensible-sounding economic reforms. Compare that with the hyperinflation and industrial collapse of the 1990s, and the squabbles, delusions and plain confusion. Western companies in Russia find that buying power is strong and officialdom increasingly manageable.

Nice, but not enough. The big worry is that Russia has failed to use the breather it gained from high oil prices and devaluation. The banking system is still a mess. Most of industry has yet to be restructured. Russian exports still consist overwhelmingly of raw materials. Apart from weapons, vodka and a smidgen of software, it is hard to think of a Russian manufactured product that sells well abroad. A fall in commodity prices, especially of oil and gas, would sharply expose the economy's underlying, untackled weaknesses.

Without fast economic growth or a lot of foreign money, it is hard to see how Russia can keep going. The government is trying to create a sense of urgency with what it calls the "2003 problem", an arbitrary date by which time, it says, the country's power stations, bridges, railways and so forth will start conking out. In much of provincial Russia, this decline seems to have started steepening some time ago. Also in 2003, the country is due to pay $18 billion to its creditors in the Paris Club of western governments.

While warning of trouble ahead, the government insists, all the same, that current policy is bang on course. It has declined to sign an agreement with the IMF, on the ground that it does not need extra loans now; it already owes $11 billion. For the most part, though, it follows orthodox, sound-money policies that would have made previous Fund missionaries faint with surprise and admiration.

The most immediate effect is political. Mr Putin does not share the government's self-satisfaction. He worries aloud about inflation. He may decide to try speeding up reform by shuffling the government. That will be easier thanks to a big shift in the lower house of parliament, the Duma. The main non-Communist opposition grouping there, Fatherland-All Russia, is merging with the main pro-Kremlin party, Unity. Two other factions are set to join too. That will give the government an outright majority of Duma seats. It will also give Mr Putin a wider pool in which to fish for talent.

Changing ministers may help, but the underlying problem is in making reforms actually happen. Irina Khakamada, a modern-minded Duma deputy, describes the middle levels of government as a "cesspit" of corruption and incompetence. Changing that has eluded Russian reformers for two centuries. One veteran financier in Moscow laments: "It's not the despair I can't stand; it's the hope."

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Spain's Basques go to the polls

Once more for the nationalists?

May 10th 2001 | BILBAO
From The Economist print edition

A regional election may curb ETA terrorism—or foment it

Get article background

AP

HE WAS on his way to a Sunday football match with his teenage son when a youth shot him dead. Manuel Gimenez Abad was a regional leader of Spain's governing People's Party (PP) in Aragon. But his murder, a week before the Basques were to elect a new regional parliament on May 13th, was plainly the work of the Basque separatist terror group ETA.

Mr Gimenez Abad was ETA's 30th victim since it ended a 14-month ceasefire in December 1999. His death and the reaction to it highlighted the stark divisions faced by the voters. Juan Jose Ibarretxe, the current head of the Basque regional government, condemned the murder. No way, he said, would he and his Basque Nationalist Party (PNV) accept the support of ETA's political wing, Euskal Herritarrok (EH), to form a new administration unless they again renounced violence. But the PNV's veteran party leader, Xabier Arzalluz, said it would let itself be voted in by EH, though rejecting any formal alliance.

That was fodder for Spain's prime minister, Jose Maria Aznar. He wants the PNV ousted from office, and replaced by a coalition between his PP and its rivals at national level, the Socialists. In coalition or alone, the PNV has run the Basque region for 21 years, ever since Spain introduced regional governments. Mr Aznar accuses it not just of discriminating against non-nationalists but of appeasement in the face of terrorism. Most of ETA's latest 30 victims have been members of the PP or Socialists; none has been a PNV politician.

Despite the tough campaign run by Mr Aznar and the man he sent to lead it, Jaime Mayor Oreja, until then Spain's interior minister, pollsters suggest the nationalists will, once again, do well: the PNV, now allied with a smaller, non-violent party, can hope for 35-40% of the vote and maybe 30 of the 75 seats. The PP, running with a small local ally, can hope for 20-22 seats, up from their joint 18 in the 1998 election. The Socialists may get 15. The big loser may be EH, the terrorists' mouthpiece, which took 14 seats last time—when the ceasefire was in force—and may get only 7-8.

Do you feel...?

	%
Purely Spanish	5
More Spanish than Basque	3
Both equally	41
More Basque than Spanish	17
Purely Basque	23

Source: Demoscopia for *El Pais*

And then what? Together, the PP and the Socialists may be close to an overall majority, even above it if they can get might-be abstainers to vote. They could also look for help to the likely two far-left members. A solely Basque-nationalist government would need EH votes. But what about a coalition across the divide? Mr Aznar insists the PP will have nothing to do with the PNV. So the Socialists are the key.

Before the election, they agreed to co-operate with the PP against terrorism and not to play politics with the issue. Many saw that as the preamble to a coalition. The Socialists have dropped heavy hints that they are willing. They have kept their options open, but would find it hard to justify a pact with the PNV to Spaniards elsewhere, outraged by ETA's return to killing.

The obvious risk in a PP-Socialist coalition is that bundling the nationalist parties together in opposition might radicalise wider nationalist opinion, to the benefit of ETA. Mr Aznar and Mr Mayor Oreja are ready to take it. But a poll published this week in *El Pais* suggests that most Basque voters are not: 55% told the pollsters reconciliation between non-nationalists and nationalists

should be a priority for any new government. And though a large majority of those who voted PP in 1998, and a small one of Socialists, would be content to see the PNV pushed into opposition, the voters overall seem to lean the other way.

Keep the PNV out of government?

%	EH	PNV	Socs	PP	All
A good thing	7	11	41	62	20
A bad one	79	67	32	21	48

Source: Demoscopia for *El País*

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France's shame over Algeria

The chagrin and the belated pity

May 10th 2001 | PARIS
From The Economist print edition

A French general's memoirs are making France think harder about its past

THE interview last week in *Le Monde* could have been the sadistic reflections of any dictatorship's faithful servant: "It's efficient, torture. Most people crack and talk. Then you usually finish them off. Did that trouble my conscience? I have to say no." But the torturer in question is not some minor thug from Augusto Pinochet's Chile or the shah's Iran; instead, he is General Paul Aussaresses, a bemedalled, eye-patched hero of the French army, launching at the age of 83 his unexpurgated memoirs as a member of the Special Forces from 1955 to 1957 during Algeria's war of independence.

The outrage has been immediate, universal—and predictable. Lionel Jospin, France's Socialist prime minister, has proclaimed himself "deeply shocked" by the general's "revolting cynicism". A "horrified" Jacques Chirac, the centre-right president who was a conscript in the Algerian war, has demanded that the general be stripped of his *Légion d'honneur* and that the defence ministry take disciplinary measures against him. The Greens and the Communists, both partners in Mr Jospin's coalition government, have called for a parliamentary inquiry; relatives of the general's victims, whose murders had been officially described as suicides, are demanding justice.

But of what sort? Although Maurice Papon, a former civil servant, began a ten-year prison sentence two years ago at the age of 89 for his crimes of collaboration during the Nazi occupation of France, most legal authorities think that General Aussaresses will escape judicial punishment. For one thing, in 1968 the French parliament declared an amnesty for all crimes committed during the Algerian war. For another, the French statute of limitation for murder is just ten years. Moreover, while Mr Papon was convicted of crimes against humanity, these were defined as crimes committed during the Nazi period. The broader definition in present French law applies only to crimes after 1994.

Cynics, however, will say that the unrepentant general's real crime is to publicise what the French elite had always known but had preferred to keep hidden. He writes, for example, that François Mitterrand, as minister of justice in 1957 when the Battle of Algiers was at its bloodiest, knew full well that the French forces were indulging in torture and summary executions. Besides, it was only six months ago that General Jacques Massu, now 92, spoke publicly of the prevalence of torture during a war which, between 1954 and 1962, claimed about 1m Algerian lives.

However nasty the details of the general's memoir, the temptation will be to forgive and forget as fast as possible, even though 56% of French adults today say that France should officially ask for Algeria's forgiveness. One Socialist politician, François Loncle, argues that parliament cannot "transform itself into a permanent institute of history", while a conservative counterpart, Jean-Louis Debré, says France should "look to the future, not revisit the past". Or, as the parliament's Socialist speaker, Raymond Forni, puts it, "We must turn the page."

The trouble is, the book of French history has rather a lot of pages and they take time to turn. It was only in February 1998, some 103 years after the event, that the French army formally acknowledged that Captain Alfred Dreyfus had been convicted of "a crime of high treason he did not commit". It took 37 years for a government inquiry to find that in 1961 the French police killed several dozen Algerians in a pro-independence rally in Paris: the official toll at the time was three dead. And it took until 1995 before a French president would dare to admit that in its wartime treatment of the Jews France had "committed the irreparable". Perhaps, as Mr Chirac later said, it is better in the end to "look history in the face".

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Germany's poor east

More cash, please

May 10th 2001 | POTSDAM
From The Economist print edition

Why Germany's east still wants more public money

WHEN Germany was unified in 1990, its ex-communist eastern part was promised an economic miracle to match that of the 1950s in the west. For a few years, it seemed to be happening. Yet now, despite a net transfer of maybe DM1,400 billion ($640 billion) in public cash, the region is falling behind again. And, with eyes increasingly focused on next year's general election—and the one-fifth of all Bundestag seats in the east—the government is being pressed, by friend and foe, to send even more billions eastward.

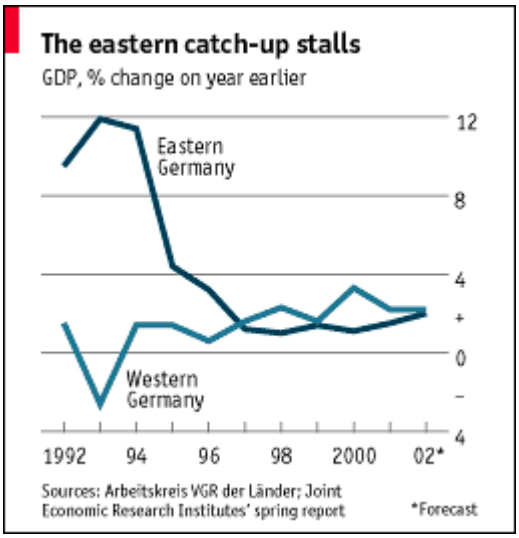
The east's post-unification boom brought it growth rates of over 10% a year. But since 1997 this has slowed to an average of 1.2%, compared with 2.2% in the west. Productivity, which doubled in the first five years, has been stagnating since then at about two-thirds of the western level. Unemployment in the west has fallen by nearly two points, to 7 1/2%, since Chancellor Gerhard Schröder came to power in 1998. In the east it has remained stuck above 17%. To make matters worse, of the 16m people living in the east in 1991, around 1m of them, mostly young and well-qualified, have since left to seek a better life in the west. One-third of all easterners aged 18-29, say pollsters, want to go.

Socially and economically, declares Wolfgang Thierse, the Bundestag's Social Democratic speaker, the east, from which he comes, is "on a knife-edge". Though the main national parties have recently tried to include at least a token *Ossi* among their leaders, westerners still dominate business and administration in the east.

Yet not all is gloomy. For all the grumbling, the east has made big strides. Its ten strongest economic areas are now judged to be in better shape than the ten weakest ones in the west. And many of its woes spring from just one industry. Construction boomed in the early 1990s, employing one eastern worker in three. Today, the building industry faces its sixth year of recession, and its labour force has fallen by half. In contrast, manufacturing is at last starting to reap the dividends of restructuring and investment. Turnover rose by 13% last year, nearly twice as much as in western Germany, and is expected to rise by nearly as much this year.

That helps to explain why the business mood in the east remains so buoyant, despite the past nine months' downturn in the national economy, while gloom spreads in the west. In their latest six-monthly forecast published last month, Germany's six leading economic think-tanks suggest that the east can expect growth to accelerate this year and next, while the west slows (see chart).

That would still leave the west growing faster. And even if the east were to achieve annual growth of 4% to the west's 2%, one study reckons it would take 30 years for GDP per person to catch up. Hence the ever more pressing calls for more cash. The west already makes net transfers eastward of some DM140 billion a year, about 4% of Germany's annual GDP.



Mr Schröder has agreed that the five eastern states will continue to require the west's help for at least another ten years, possibly more. The central government and those of the country's 16 states are trying to thrash out a new "solidarity" pact for the east, to replace the present ten-year official aid arrangement, now running at around DM50 billion a year, when it comes to an end in 2004.

Mr Schröder has denied any plans for a big new injection of money into the east, as a general election approaches, the

economy slows, and nationwide unemployment creeps up again. All the same, few believe that Mr Schröder will want to embark on his planned tour of the eastern states this summer with empty hands.

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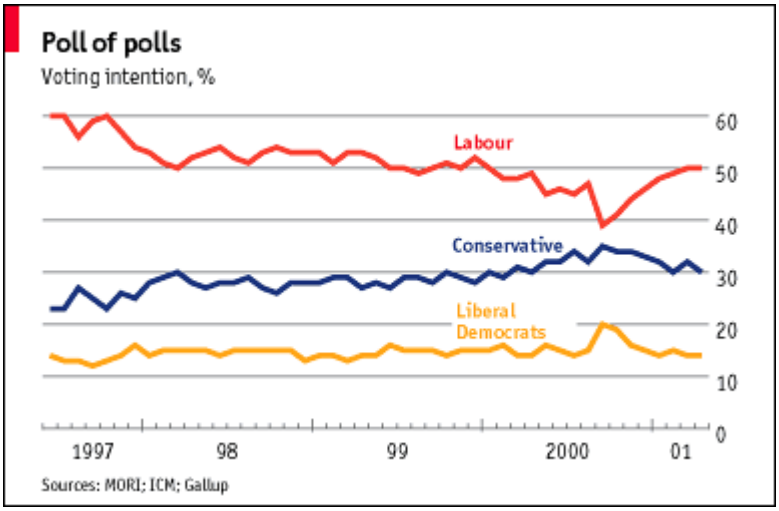
The general election

Now you can make me perfect

May 10th 2001
From The Economist print edition

Mr Humble, Mr Angry and Mr Snooty: three characters in search of a drama

THE British like races, especially if they can place a bet on its outcome. But not even a nation of punters is going to be able to extract much suspense from the general election due on June 7th. If Tony Blair's Labour Party is not re-elected for a second term, and with another handsome majority, the nation's psephologists will have to eat not just their hats but the contents of an entire milliner's shop. Parties have won from behind before, but none from as far behind as William Hague's Conservative Party now lies in the polls. Since Labour's 1997 landslide, and except for one blip during last September's fuel crisis, the Tories have trailed well behind the government (see chart). A MORI poll in the *Times* on May 10th put Labour on 54%, the Tories on 30% and the Liberal Democrats on 13%.



A certain Labour victory does not mean that the campaign itself has to be dull. For different reasons, the leaders of all three main parties have an interest in injecting drama into it. Mr Hague has the strongest incentive: a feisty campaign may help him ward off a leadership challenge when the election is over. Charles Kennedy's first general election as leader of the Liberal Democrats is a test of his ability to maintain the separate identity of the third party now that Mr Blair has moved Labour sharply to the centre of British politics. Mr Blair himself needs to inject enough enthusiasm into the campaign to prevent Labour supporters from staying home on polling day. The last thing Mr Blair wants to convey in his campaign is the slightest sense of arrogance or complacency.

Reuters

Enter Mr Humble. The prime minister may have a stonking lead in the polls, but he spent much of this week stressing that he does not take a single vote for granted. In a final cabinet meeting on May 7th, Mr Blair told his ministers to acknowledge that the government had not achieved all its aims in the first term and to set out its record "with honesty and humility". The next day, a shirt-sleeved prime minister announced the date of the election not from Number 10 but from St Saviour's and St Olave's, an inner-city girls' school in London. Standing before the girls "with a sense of both humility and hope", he said that Labour had built strong foundations but that no government with ambitions as lofty as his could complete its programme in a single term.

Mr Hague is campaigning as Mr Angry. On the day of Mr Blair's stage-managed election announcement, the Conservative leader

launched his campaign with some rambunctious soap-box oratory on a high street in Watford, north of London. He promised to return some of the taxpayers' money the Labour government had "stolen" in "stealth taxes", to increase the number of policemen and to hit crime hard. He reserved his main ire for Mr Blair's plan to take Britain deeper into the European Union and to ditch the pound in favour of the euro. "Most of all," said Mr Hague, "we are going to make sure that we still have the power to govern our own country, because that is what is being taken away."

The Lib Dems' Mr Kennedy is in danger of coming over as the election's Mr Snooty. With a record 47 seats to defend, the third party is eager to attract the tactical votes of Labour supporters in marginals where Labour cannot win. This gives Mr Kennedy a good reason to be harder on the rival opposition party than on the government itself. He is therefore "disappointed" in Labour, but heaps scorn on the Tories, especially for what he calls their scaremongering on Europe and asylum-seekers. The Tories, Mr Kennedy declared this week, were a negative and destructive opposition, which preyed on people's fears. His own party was a positive, constructive outfit that addressed people's aspirations.

Seriously, though

Can Messrs Humble, Angry and Snooty inject the missing drama into this election? Not if voters conclude that they are hamming up their parts. In real life, the easygoing Mr Kennedy is not snooty; the equable Mr Hague is seldom angry; and the humility of Mr Blair is not invariably the first attribute that people remark in the prime minister. Nor are the parties as far apart on policy as their electioneering pretends.

Mr Blair said at St Saviour's that the differences between the two main parties were "more stark than at any time since 1983". He exaggerates: 1983 was the election in which Michael Foot threw the Labour Party into a suicidal battle against Margaret Thatcher's Tories by campaigning for high taxes, stronger state intervention in the economy, withdrawal from the Common Market and unilateral nuclear disarmament. This time, the sound and fury of electioneering cannot disguise the narrowing policy gap between the parties.

According to Mr Hague, the Conservatives remain a tax-reducing party, committed philosophically to a smaller state. But the philosophy has yet to show up in the numbers. The Conservative manifesto, published on May 10th, contains some eye-catching tax-reduction promises, such as a cut of 6p per litre in fuel duty, to be implemented within a year of the election. However, the Conservative promise to spend £8 billion ($11.4 billion) less than Labour by 2003 amounts to less than 1% of GDP. Besides, the Tories claim that they would match Labour's spending promises on hospitals, schools and crime.

Labour contrasts the Tories' "irresponsible" tax cuts with its own bold plans for public "investment" (ie, spending). But its second-term "pledge card", promising 10,000 extra teachers, 20,000 extra nurses and 10,000 extra doctors, is notable mainly for its caution. Mr Blair has hinted strongly that he will once again rule out an increase in income taxes.

The big policy difference between the parties is the euro. Mr Hague made this the main of thrust of a flaming final onslaught on Mr Blair in the last prime minister's questions before the dissolution of Parliament. He said that the "central deception" of the election was going to be Mr Blair's pretence that he would give voters a choice on joining the European single currency, whereas Labour's real intention was to "bounce" them into membership.

The Conservatives' promise to rule out British euro membership for the foreseeable future is one of their few policies that go down better than Labour's in the opinion polls. But, with a referendum promised before any decision on joining, there is no evidence that this is an election winner. Unless, that is, the election Mr Hague has in mind is the internal party contest that Mr Angry may have to fight if he is to keep his job after the general election.

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Shopping

The towns fight back

May 10th 2001 | READING
From The Economist print edition

Not long ago, it looked as though out-of-town shopping malls were killing town centres. That may be changing

AN UNREMARKABLE town just to the west of London, Reading once had little to boast of beyond its biscuit factories and the jail which long ago had accommodated Oscar Wilde. But these days it has a new source of municipal pride: the Oracle shopping centre.

With its gleaming shop fronts, its multiplex cinema and its public art, the Oracle has done more than bring a touch of Las Vegas to Reading. It has also attracted a stream of planners and retail designers, from as far afield as China, Japan and Australia, who have come to inspect the vanguard of the town centre's fight back against American-style out-of-town shopping malls.

In the 1980s, the Conservative government loosened planning controls and American-style, out-of-town shopping malls, such as Meadowhall outside Sheffield, Bluewater outside London and the Metrocentre outside Newcastle, spread across the country. In the 1990s, planners and politicians worried that these malls were sucking the shopping, and thus the money and life, out of the towns and cities which they fed off.

In an attempt to reverse this trend, the Tory government introduced in 1996 the rule of "sequential testing" into the planning laws. Developers now have to prove that there is no suitable location inside a town or city before they can hope to get planning permission on a greenfield site. The change in the rules is designed not just to revive town centres, but also to cut down on congestion and save what remains of the green belt.

The out-of-town malls mostly offered no-frills cheap shopping. The towns are trying to provide something a little fancier. The Oracle boasts nice public art; and, unlike some shopping centres its managers could mention, it has a real river running through it (the Kennet) that has not been buried under the concrete, but has been turned into a feature of the new development. At the same time, Reading council has smartened up and pedestrianised the adjacent shopping streets. The result is a big improvement on the drab and dirty town centre of ten years ago.

Opened in November 1999, the Oracle was the result of these changes in the rules and of a £250m ($405m) investment by the Abu Dhabi Investment Authority and Hamerson UK Properties, a developer. It has 700,000 square feet of shopping space, a ten-screen cinema, 23 bars and cafés, and 2,300 car-parking spaces. Last year it attracted 22m visitors—about 12m more than the Dome got. It won the "Best Loo of the Year" award from the British Toilet Association in 2000 (fully deserved), and this year it has already scooped the rather more prestigious award for "Best New European Shopping Centre" from the International Council of Shopping Centres.

Other towns are hoping to emulate Reading's success. The rather less optimistic-sounding Touchwood centre will open in Solihull before the end of the year, the WestQuay centre has just opened in Southampton, and Birmingham's new centre will open in the Bull Ring in 2002. More will follow.

Simon Quin, Reading's town-centre manager, holds out what has happened in his town as a beacon of what retail-led, inner-city redevelopment can achieve. Not only is Reading drawing in shoppers from the surrounding area as never before, but many of them are staying to enjoy an equally booming night-time economy as well. On the "shopping hierarchy" list of Britain's best retail centres compiled by

“Management Horizons Europe”, a consultancy, Reading is now eighth. Six years ago, it was 30th.

Towns and cities will not be able to pull in the high-tech and IT firms that everybody wants, say Mr Quin, if their centres are dismal and downbeat. The well-educated young people whom those sorts of companies want to employ want to go shopping and have fun. Reading is lucky. High-tech companies such as Veritas, Logica and, well, Oracle are already there. They moved to Reading because it is on the “M4 corridor”. But for the presence of such companies, the Oracle development would probably not have happened.

Reading is as well-placed as anywhere to survive a downturn; but even so, it is bracing itself for job losses in the IT sector. Other towns may find the Oracle’s success hard to replicate. Developments at Solihull and Southampton, which are not located in the middle of the high-tech boom, may struggle.

And just as the old out-of-town malls impoverished the town centres, there is no guarantee that smart new inner-city developments like the Oracle will not just drag trade away from other parts of the town. In Reading, the newly pedestrianised Broad Street is doing very well, but the neighbouring, unmodernised streets look even dowdier and more neglected than they did a decade ago.

Will the new town-centre developments win the struggle for the nation’s wallets against the out-of-town malls? Only a head-to-head fight between two such developments will determine that. Romford, in Essex, is being redeveloped to compete with Bluewater and Lakeside, two huge malls to the east of London. The battle between them will be the OK Corral of the nation of shopkeepers.

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Branding

Seeing purple

May 10th 2001
From The Economist print edition

Prosperity has turned Britain a strange new hue

WITH a full range of colours* at its disposal for the first time, *The Economist* can now focus on a ubiquitous but unremarked feature of modern Britain: purple.

Colour has become the most recognisable element of a logo or product. It infects all areas of corporate culture, from letterheads to umbrellas to shirts. For some companies, colour is brand: Orange sounded like a daft name for a mobile phone, but it worked.

Red is for retail. It is a hot colour, used to agitate the eye and attract attention. (Think McDonalds.) Blue is cool, suggesting dependability and competence. It is thus the best colour for corporate life (think of all those businessmen who used to parade in endless shades of blue shirts). Orange is the sun rising, a symbol of optimism.

But in the mid-1990s, branders were looking for something a bit different. The boom, and the companies associated with it, was a bit different to the ones that had gone before. Tie-wearing corporate conservatism had given way to self-consciously casual youthfulness.

Fortunately, purple was at hand. Purple was the colour of the pop culture of the 1960s and early 1970s, from Purple Haze to Deep Purple. It's "funky", say the branders, with a little shiver of pleasure. Even better, it is associated with disgustingly ostentatious wealth. In Roman times, it was the most expensive animal dye to produce. It was the colour of Cleopatra's barge, and Julius Caesar decreed that purple could be worn only by the emperor and his household.

Rich and funky: the perfect colour for the new economy. High-tech businesses have taken up purple—such as Carphone Warehouse's WAP phone brand, Mviva, which has juxtaposed it with a delicate lime green. So have up-market restaurants, such as The Avenue in London's St James's. Old companies who want to be hip—Bradford and Bingley building society, for instance—go purple. It crosses generations, too. Harry Potter is purple. And it's not just for businesses, but for businessmen as well. In your next meeting, count the shirts in purple, mauve, lilac and aubergine.

Purple has its uses, too, when politics is breaking new ground. Ken Livingstone, a renegade Labour man, used purple for his successful campaign to be London's mayor. And the BBC's election website, scrupulously avoiding any possibility of bias, is themed in purple.

But if purple is the colour of the bull market, what is the colour of the bear market? Ian Elwood, director of Cobalt, a brand and innovation design group, expects corporate culture in an economic downturn to revert to white, the colour of puritanism, conservatism and safety—the colour of Gordon Brown's shirts.

** The version of this article that appears in The Economist print edition has a purple background (tasteful, of course), to show off the print edition's redesign and use of colour. Economist.com is quite colourful enough as it is.*

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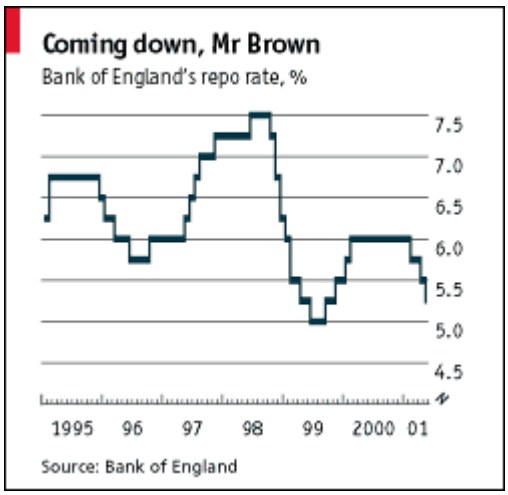
Interest rates

Down again

May 10th 2001
From The Economist print edition

Worries about a slowing economy prompt a further cut in interest rates

THE Bank of England lowered the base rate to 5.25% on May 10th, its third reduction of a quarter-point since the start of the year. Even though the Bank is now operationally independent, the timing of the cut was awkward so soon after an election had been called. But delay this week on electoral grounds would have postponed a cut in interest rates until July, since the next meeting of the Bank's Monetary Policy Committee (MPC) is scheduled for the two days before the election on June 7th. And the need for further cuts in interest rates had become clear.



This week's decision by the MPC was foreshadowed when it met in April and also brought down interest rates by a quarter-point. Three of the nine-strong MPC members were already calling then for a half-point reduction. And some of the majority group "felt that it might not require much additional downside news to justify a further cut in rates."

Since then, there have indeed been further gloomy dispatches from the economic front. Although the American economy grew somewhat more rapidly than expected in the first quarter, the unemployment rate there jumped in April and job losses were the highest for ten years. The fear is that worries about jobs will cause consumers to pull in their horns on spending, which would lead to a second downward leg in the American slowdown. Growth prospects in the euro area have also been downgraded, with the outlook deteriorating particularly in Germany.

In Britain, the economy has already been faltering even before the impact of the American downturn. Since last autumn, quarter-on-quarter growth in GDP has been about half the average of the last four years. Forecasts for growth in 2001 have been falling, although the average prediction of 2.3% made by *The Economist*'s panel in May was still only a little below the trend rate of growth. Business surveys have been painting a deteriorating economic outlook. This month's report from purchasing managers, for example, revealed a sharp deceleration in services, for so long the engine of the economy.

Most important, inflation remains subdued at just 1.9% in the twelve months to March, below the 2.5%-a-year target set by the chancellor. A number of economic forecasters expect a further fall in inflation in April, mainly because Gordon Brown's budget did not raise excise duties like those on alcohol and tobacco which had been increased a year earlier. Next week, the Bank publishes its quarterly "Inflation Report". Ciaran Barr, an economist at Deutsche Bank, expects "quite a dovish report with next year's inflation forecast being cut and more of an emphasis on downside risks."

The textbook argument in favour of central bank independence is that it prevents political manipulation of the economy. Ironically, the independent Bank of England is delivering a reduction in interest rates that would be suspect if delivered by an electioneering chancellor. But the cut cuts both ways. It lowers borrowing costs for homebuyers but it indicates that the economic outlook may not be as stable as Labour would have you believe.

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Bagehot

Lend me your ears

May 10th 2001
From The Economist print edition

As for your brains, you would do better to leave them behind at home

IN BRITAIN'S last general election, the supposedly momentous one of 1997, which returned Labour to power after 18 years in the wilderness, only about 70% of eligible voters bothered to turn out, the lowest percentage since the second world war. If there is one certainty (apart from its result) about the election due on June 7th, it is that, throughout the campaign, politicians will wring their hands, make pious utterances about the growing cynicism of the electorate, and agonise aloud about whether a low turnout on voting day should be taken to signify some sort of crisis in democracy. They will preach through megaphones on abruptly emptying street corners, wondering why so few shoppers stop to listen. Perhaps politicians are talking about the wrong subjects? Perhaps voters have lost faith in the power of governments to change their lives? Does the problem arise from the atomisation of society; or from the re-alignment of political parties; or from the de-alignment of social classes; or from some ineffable post-modern condition involving an exquisite interaction between all of the above?

No doubt there are many answers. But while the campaign is still young and there is time for remedial action, Bagehot would like to propose his own modest theory. What turns some people off politics is the way politicians talk about it. Elections in particular put something in the air which politicians inhale and makes even the most articulate of them spout gobbledegook.

On the day the election was announced, William Hague, the Conservative leader, mounted a soap-box in Watford and proclaimed his solemn intention to take his campaign to "the real people of the country". He then added, as if to explain who the unreal people were, that he wanted to talk to people "who are interested in the price of petrol more than proportional represention". This was no big deal, just a bit of campaign knockabout. But it is worth parsing, nonetheless.

Mr Hague would have you believe that a "real person" cannot be interested in both the price of petrol and in voting reform. But the odd thing here is that Mr Hague, of all people, cannot pretend to believe such a thing himself. At 16, the age when "real" teenagers were bunking off school to do whatever seemed wicked, Master Hague was imitating Winston Churchill from the platform of a Conservative Party conference. In fact, if there is anyone in Britain who would sooner debate the finer points of the alternative-vote system than moan about the price of diesel, it happens to be this lifelong political obsessive. In other words, something in the electoral air made an intelligent man utter a nonsense against himself.

Still, why single out Mr Hague? The calling of the election has had an instant coarsening effect on discourse across all the parties. A typical "debate" on television or radio this past week has consisted of the rivals condensing the maximum number of pre-prepared soundbites into the briefest possible space.

It would be fatuous to moan about soundbites. They have added pith to political debates that were once vague and windy. When used in real debate—remember Walter Mondale's "Where's the beef?" demolition of Gary Hart in 1984—they can be both entertaining and lethal to an opponent. The Tories' position on the European Union could not be summarised more plainly than by their oft-repeated slogan, "in Europe not run by Europe". But, please, only within limits.

Such slogans are fine if they lead on to a discussion of the questions that they invariably beg. They are not fine when they are hooped end-to-end, as a substitute for argument instead of a prelude to it. When, as this week, Gordon Brown, the chancellor of the exchequer, cranks out bits of boilerplate about

“opportunity open to all, prosperity shared by all”, you sense that even his own ever-lively mind is glazing over internally with boredom. An election in which the “in Europe not run by Europe” party trades soundbites with the “no more return to Tory boom-and-bust” party ends up by insulting the intelligence of voters and encouraging them to tune out.

Enemies who are closer than they want to think

Why do politicians do it? Not just to hammer home a message but because parties are risk averse. For the modern party, a politician who expresses his own opinion in his own words, instead of those devised at headquarters by a vapid reaction unit, is an accident waiting to happen. But something more insidious may be at work as well. Politicians like slogans and soundbites because these devices help them to caricature the positions of their opponents. This is a special comfort to British political parties in the present election because neither wants to acknowledge how little ideology now stands between them.

If you are a Labour MP out on the stump, it is strangely motivating to believe your own party’s propaganda when it portrays the Conservatives as callous and possibly racist right-wing “extremists”, rather than, as is closer to the truth, the party whose political clothes you have just successfully stolen. By the same token, if you are a Conservative MP who has just been relieved of said clothes, it helps to believe that the party politician who stole them is an impostor who will shortly re-emerge in his true socialist colours, rather than someone who has simply changed his mind (as a result, in fact, of your own fine example and persuasiveness). But voters are liable simply to notice that the parties tell lies about one another.

Most of the voters who abstain on June 7th will do so because they do not care about politics. But others will be turned off by the way in which politicians comport themselves. Politics would not be fun if it became too pious. On the other hand, like matrimony, an election is not to be taken in hand unadvisedly, lightly, or wantonly, but reverently, discreetly, advisedly, soberly, duly considering the causes for which elections were ordained. Week one has not been encouraging.

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Scottish Conservatives

The undead

May 10th 2001 | EDINBURGH
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The Tories will struggle to regain ground in Scotland

AMID the vote-counting on May 1st 1997, Sir Malcolm Rifkind's election agent told him that Juniper Green, a hitherto rock-solid Conservative area of the Edinburgh Pentlands seat he had held for 23 years, appeared to have done the unthinkable. It had voted Labour. "You must be mistaken," said Sir Malcolm. But the agent was right. Sir Malcolm was swept out with the tide that washed away all the Scottish Tories' parliamentary seats.

Four years on, Sir Malcolm waggles his tie triumphantly. It bears the logo of the Juniper Green Bowling Club, of which he boasts he is president. "Juniper Green is blue again!" he exults. Forget the fact that he was foreign secretary, or even Scottish secretary. Bowling club presidencies, and suchlike, matter more to the Tories' chances north of the border.

Will Rifkind rise from the grave?

The 1997 Tory cull resulted from a fall in their share of the Scottish vote to 17.5%. In the 1999 elections to the Scottish Parliament, it fell even further, to 15.6%. Since then, it has stuck at about 15%. Even if this poll is an under-estimate, as the Tories insist it is, it looks as though they will do well to get 20% this time. That might yield them three seats—Eastwood, South Aberdeen and Perth. But Sir Malcolm needs a 5.4% swing from Labour to win.

It's possible. Politics north of the border has changed since 1997. Then, it was dominated by the devolution debate, and the Tories were on the wrong side of public opinion. That is over, and the Tories now have 19 seats in the Scottish Parliament. They even won a seat from Labour (Ayr) in a by-election.

Sir Malcolm reckons that these are signs that anti-Tory tactical voting which cost him dear last time (see article) is on the wane. He also thinks that the Scottish Tory campaign, which will be built on William Hague's tax-cutting and anti-euro agenda, puts the Tories back into the mainstream of Scottish thinking. A recent poll for the *Scotsman* found that 68% of Scots were opposed to Britain joining the euro.

But the Tories have yet to convince voters that they are a Scottish rather than an English party. Sir Malcolm hopes the campaign may change that. Talk that Labour is planning to abolish the cabinet post of Scottish secretary worries the Scots; and in a television debate on May 8th, he spotted that Helen Liddell, the Scottish secretary, refused to confirm that her job would survive. The Tories, Sir Malcolm insisted, would not only keep the Scottish job in the cabinet, but would maintain the formula which ensures generous Treasury funding for Scotland. Some Labour ministers think the formula is too generous.

Yet four weeks is an awfully short time in which to recreate a Scottish identity lost over 18 years. When Sir Malcolm says, "I'm going back to my constituency to prepare for government," a nearby senior Tory briefly guffaws. Juniper Green's return to the fold may help give Sir Malcolm a better chance of becoming an MP than William Hague has of becoming prime minister, but it is still a small chance.

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Tactical voting

Where has all the hatred gone?

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From The Economist print edition

There may be less tactical voting than in 1997. That would help the Tories

WHEN Labour won its huge majority in 1997, the Conservatives got a higher share of the vote than Labour did when it lost horribly in 1983. The key to Labour's success was not how many votes the party won, but where it won them.

Tactical voting proved a big help to Labour. Many Labour and Liberal Democrat supporters decided to back whichever of those two parties was best placed in their constituency. This was one of the main reasons why Tony Blair won 24 more seats than the 10% national swing would otherwise have brought him.

Such anti-Conservative tactical voting occurred on an unprecedented scale. In seats where Labour was challenging the Conservatives, the party's share of the vote rose on average by 13 points—three points higher than it did across the country as a whole (see chart). Labour did better in those seats not because the Conservatives lost more votes, but because Liberal Democrat voters shifted to Labour. The Lib Dem vote fell two points more in those seats than it did nationally.

Where the Lib Dems were the better placed to defeat the Conservatives, the opposite happened. The Lib Dem vote rose, against the national trend. Meanwhile, Labour's vote rose on average by three points less than the national norm.

Tactical voting squeezes Tories

Mean change in % vote 1992-97

	Conservative	Labour	Liberal Democrats
Conservative/ Labour contests*	-13	+13	-3
Conservative/ Liberal Democrat contests†	-12	+7	+2
All Britain	**-11**	**+10**	**-1**

*Conservatives 1st Labour 2nd in 1992
†Conservatives 1st Liberal Democrats 2nd in 1992

Source: John Curtice

Will the same happen in 2001? Maybe not, given what happened in last year's local elections. Between the 1996 and 2000 local elections, Labour's vote fell in most seats where the contest was between Labour and the Conservatives, and the Lib Dems' vote fell only in seats where the contest was between the Lib Dems and the Conservatives. The anti-Conservative alliance seemed to be unravelling.

Surveys tell a similar story. In 1997, as in previous elections, voters who cast an anti-Conservative tactical vote disliked the Conservatives but liked both Labour and the Lib Dems. Such voters are rare. Those who loathe the Tories usually have a strong preference between Labour and the Lib Dems too. In 1992, for example, only 9% of voters liked both Labour and the Lib Dems while disliking the Conservatives.

According to the British Election Study, however, by 1997 this figure doubled to no less than 22%. This was why tactical voting increased between 1992 and 1997. There is no evidence that it happened because voters are becoming more sophisticated or better informed about the opportunities for tactical voting.

The big question, then, is what happens to the number of people who hate the Tories and like both Labour and the Liberal Democrats. The evidence suggests that it is shrinking. Last spring, the election study interviewed again the voters it talked to after the 1997 election. It found that the proportion of people disliking the Conservatives and liking both Labour and the Lib Dems was back down to its 1992 level. The Conservatives may have done little to restore public confidence in their ability to govern, but fewer people now positively dislike the party. After all, now there is no longer a Conservative government, what is there left to hate?

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Marginal seats

Swinging in Stroud

May 10th 2001 | STROUD, GLOUCESTERSHIRE
From The Economist print edition

If the Tories are to dent Labour's majority, they need to win back places like Stroud. They can't be confident of doing so

IN 1997, Stroud witnessed some of the country's least subtle tactical voting. In the local elections held on the same day as the general one, the Liberal Democrats polled 33% of the vote; in the main event, they got 15%. The seat, which the Tories had held since 1950, went to Labour on a slim majority. The extent of Toryphobic tactical voting in marginals such as Stroud will help determine the outcome of the election. Neil Carmichael, the local Conservative candidate, says that "if we don't win Stroud, the idea of forming a government is pie in the sky."

Before deciding on tactics, electors in Stroud, as elsewhere, will need to decide whether to vote at all. Stroud is a snug, successful market town that, superficially, seems insulated from many of the issues that excite sound and fury at Westminster.

Though its textile industry has declined, unusually for the area, and disconcertingly for tourists, other manufacturers survive on the outskirts of Stroud. Its central district has seen slightly better days, and the town has pockets of deprivation, but overall the economy is thriving: unemployment is well below the national average. A local job agency complains that there are many more jobs than candidates to fill them. Contented estate agents report that property prices are still rising. Along with the Cotswold countryside, enticements include the area's successful schools.

Many of these felicities may not be attributable to the Labour government; equally, though, voters in Stroud seem unlikely to be susceptible to Tory prophecies of impending national meltdown. Yet despite its high level of home ownership and ethnic homogeneity, the constituency is not a caricature of unreconstructed Middle England. Passions exist, for politicians to exploit.

As the craft and organic food shops on the high street intimate, the area has a history of quiet radicalism. Stroud was one of first towns to elect a sizeable Green group to its council; after poll tax demonstrations in Bath, Chris Patten, a former Conservative minister, reputedly claimed that the demonstrators had been bused in from radical places like Stroud.

Away from the market towns other discontents are bubbling. Regulars in one village pub grumble about immigrants (of whom, locally, there are almost none). The publican disparages Labour's minimum wage and business regulations. A village shopkeeper, who voted for Labour 1997, says he won't do so again, because the government is "all say and no do".

There is also the spectre, and in a few places the stench, of foot-and-mouth disease (FMD). There have been no new cases in Gloucestershire in the past few weeks, and footpaths are beginning to re-open. But there is still anger about the way the disease has been handled. In the village of North Nibley, some parents bemoan the proximity of a livestock pyre to the primary school. Hoteliers and others complain about the knock-on effects on their trade. Other staple rural concerns—preserving green fields, and the cost of petrol—could generate votes.

Stroud's candidates are charismatic enough to harvest them. David Drew, the MP, who sits jointly for Labour and the Co-operative Party, is energetic and well-respected, and argued against holding the

election in May. Janice Beasley, the Liberal Democrat, is a television actress. Mr Carmichael has variously worked in farming, for a learning disabilities charity, and as a politics lecturer. He is confident that the tactical hostility of 1997 has subsided. Likewise, Ms Beasley thinks the government has alienated too many Lib Dems for tactical voting on the scale of 1997 to recur.

Even if those assessments are right, a Tory victory may not be assured. Anger warped the 1997 election; its absence may complicate the forthcoming one. Despite the relative political activism of the south-west, and the variegated nature of the constituency, sufficient numbers of voters may be unconvinced by the arguments for change. Mr Drew is worried about animating Labour supporters on council estates; but inertia could extend beyond them. His Tory opponent suspects that, with the prevarications over the election date and the phoney war which followed, there may just have been “too much politics” recently for ordinary people to stomach. Indeed, when the election was finally called, several Stroud residents bemoaned the prospect of “another month of this”.

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Campaign diary

On the trail

May 10th 2001
From The Economist print edition

Scowl of the week

Reuters

John Prescott's expression as he arrived at Number 10 for a pre-election meeting suggests that he is not relishing the fight as much as some of his colleagues. Or perhaps he knows his halcyon days as deputy prime minister and transport supremo are drawing to a close. Expect another scowl after the election, when another ill-starred minister is put in charge of Britain's railways.

Contrasting wives of the week

Cherie Blair is breaking with the tradition that prime ministerial spouses should help out with the baby-kissing during a campaign, preferring to ply her own trade as a barrister. By contrast, Ffion Hague is faithfully at her husband William's side—though she is more likely to be seen than heard. A reporter asked whether Mrs Hague was looking forward to the campaign; before she could express her enthusiasm, Mr Hague interjected. "She certainly is," he said. "She's enjoying it already."

Embarrassing ally of the week

Announcing the election at a school, surrounded by beatific pupils, must have seemed like a sure-fire vote-winner to Labour strategists. But the headmistress of the school in question, Irene Bishop, is disgruntled: "I've been irritated by being called a 'Blairite' in the press," Ms Bishop complained. And as for those journalists: "They were elbowing people out of the way, smoking in a non-smoking school...and taking chairs meant for the children."

Philistines of the week

The Tories' sonorous campaign song, "Heartlands"—whose composer is best known for writing the theme tune to "The Wombles"—has not been well-received. One of the kinder critics described it as a pastiche of Elgar on a very bad day. Labour, meanwhile, proved the rule that when middle-aged men pretend to like pop music, they risk embarrassment—choosing a song which graced the charts six years ago.

Icarus of the week

One of the last visitors (unannounced) to Downing Street before Tony Blair called the election was Rupert Murdoch. Mr Murdoch's *Sun* newspaper revealed the election date, and its endorsement of Mr Blair, suspiciously early. In 1992, by contrast, the tabloid advised that, if Labour won the election, the last person out of Britain should turn out the lights. But the love affair may cool, if squabbles over Europe dominate the campaign. The *Sun* takes its nationalist credentials as seriously as Labour appears to take the *Sun*.

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Iran's clerics

The clergy in defence of their own

May 10th 2001 | QOM
From The Economist print edition

Muhammad Khatami's re-election is being opposed by his fellow clerics

Get article background

Corbis

A MOOD of sombre lamentation hung over the cloisters of Qom on May 4th. After months of humming and hawing, Muhammad Khatami had just announced that he would seek re-election on June 8th. He is expected to win comfortably. And though he wears the black turban of a *seyed*, a descendant of the prophet, he is viewed with suspicion in the seminary town where he studied. Having risen to the highest elected position in an Islamic republic supervised and largely administered by clerics, he is now associated with efforts to have those clerics sidelined.

The president, describing himself as a "reluctant" candidate, was swayed by the entreaties of his supporters, who think he alone can propel Iran's faltering reform movement past the conservative establishment that blocks its path. That path runs straight through Qom. Although there are reformers among them, the majority of the city's 20,000 clerics deplore what they see as the government's encouragement of libertarian excess. At the weekend, an umbrella group of powerful Qom-based ayatollahs denounced proponents of a "culture of liberalism", and attacked reformers for their attempts to depict the "bankruptcy of religious government". Coming the day after Mr Khatami registered as a presidential candidate, the target of the ayatollahs' scolding could hardly have been clearer.

The president may himself be no more than a mild reformer, argue the clerics in Qom, but the people around him—presented as radical degenerates—are using him as a Trojan horse. In the first flush of reforms after Mr Khatami's election in 1997, journalists were so daring with their criticism and revelations that Ayatollah Ali Khamenei, Iran's conservative "supreme leader", declared them to be an "enemy base". Since then, hardline judges have banned dozens of reforming publications, and thrown the bravest journalists into prison. The clerics are also upset that in Tehran and other cities young people have taken advantage of Mr Khatami's relaxed approach to Iran's social restrictions: they dress less modestly than the clerics would like, and hold unIslamic parties.

The clerics' argument dovetails with self-interest. Although some of them refuse on doctrinal grounds to get involved in running the country, others do so with a will. They enjoy an inbuilt advantage over laymen. Clerics control the Council of Guardians, which vets laws and office-seekers for their adherence to Islamic tenets, and they choose the supreme leader. An old-school-turban network dominates the judiciary and the intelligence ministry. Ali Fallahian, a controversial ex-intelligence minister and a former member of Qom's powerful Haqani seminary, is one of the hardliners challenging Mr Khatami.

All this gives the conservative clergy a powerful incentive to thwart Mr Khatami's reform programme. But their efforts have brought them into conflict with most Iranians, and have had baleful results. The prestige of the clerics, the ayatollahs of Qom agree, is now lower than it has been at any time since the 1979 Islamic revolution.

The implications of this are well understood. Some of Mr Khatami's supporters have been talking about a referendum to decide between different "interpretations" of Islamic government. Conservatives fear that this talk conceals a plot to kick the clergy out of politics. Ayatollah Muhammad Taqi Mesbah Yazdi, a Qom hardliner with a big following among seminarians, recently declared that the regime's legitimacy comes from God alone. Last month, one of his followers spoke in favour of "reasonable despotism"; he suggested that carrying out the views of Islamic scholars was the best way of carrying out the views of the people. The student leader who raised the idea of a referendum most forcefully has been put behind bars.

As the man who straddles the divide between temporal and divine power, it is the supreme leader's job to reconcile these opposing views. But though Mr Khamenei recognises the danger that Mr Mesbah Yazdi's extremism poses to the regime's popular legitimacy, he himself is firmly in the conservative camp. Moreover, he lacks the unquestioned authority of his predecessor, Ayatollah Ruhollah Khomeini.

Mr Khamenei got the chance to be supreme leader when Khomeini fell out with his nominated heir, Ayatollah Hossein Ali Montazeri. In 1997, Mr Montazeri, whose scholarship has won him millions of followers around the Shia Muslim world, was put under house arrest after he drew attention to Mr Khamenei's inferior learning. Several grand ayatollahs, some of them former students of Mr Montazeri, share their mentor's doubts. While Khomeini was alive, radicals such as Mr Mesbah Yazdi would be kept under the supreme leader's control. Nowadays, strident voices grow louder, even as people's affection falters for the clerics of Qom.

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Wagner in Israel

To play or not to play

May 10th 2001 | JERUSALEM
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An emotive debate about music raises new questions about Israel's identity

SHOULD an informal ban be lifted on public performances in Israel of the work of Richard Wagner, an anti-Semitic German composer admired by Adolf Hitler? Democracy, freedom of choice, Holocaust survivors' sensitivities—all are part of the mix of an emotive debate that has troubled Israel for decades but is now back in a fresh guise. The Berlin Staatskapelle, under its maestro Daniel Barenboim, an Argentine-born Jew who grew up Israel, is due to perform one of Wagner's most controversial pieces, the first act of "Die Walküre", as the centrepiece of a state-sponsored festival in Jerusalem to be held on July 7th.

"We are mature enough," argues Ehud Gross, director of a leading Israeli city orchestra, "and we can, and should, be tolerant enough to listen to the music, to like the music or not, and both ways to make the distinction between Wagner the monster and Wagner the composer." Israel's Philharmonic Orchestra, created in 1936, played Wagner in its second performance but never again, and banned him after *Kristallnacht*, the November 1938 night of anti-Jewish rioting that set Germany on the path to the Holocaust.

Mr Gross's Rishon Le-Zion orchestra broke the taboo once last year by playing a passage from the "Siegfried Idyll" before an audience that included many Holocaust survivors, a quarter of a million of whom are thought still to be alive in Israel. Some said their presence represented a triumph over the Nazis, though one repeatedly interrupted the concert with a rattle.

Although the argument had seemed to have moved into a minor key, it has now once again become an intense soul-search. As the new debate takes hold, many say that playing Wagner in Jerusalem is not an issue for Israelis alone but for Jews the world over. Opponents say the discussion should be not on the merits of the music but on the memory of the Holocaust. "Through his inflammatory rhetoric, Wagner was co-responsible for the transition from Bayreuth [the Wagnerian centre in Germany] to Auschwitz," said Elyakim Haetzni, a right-wing ideologist, on Tuesday at a parliamentary meeting that was thrown open to the public.

There are few arguments in Israel over Wagner's virulent anti-Semitism. According to Steven Aschheim, a historian at the Hebrew University, Wagner's operas

> are suffused with themes where the opposite of redemption, the opposite of love, is the materialist Jew who in some way prevents the redemption of humankind. But what is critical is not the degree of his anti-Semitism; many famous composers were notoriously anti-Semitic. Wagner's and Hitler's names are linked because the Nazis annexed Wagner and the Wagner cult to the Nazi cause.

Mr Barenboim responded to his critics in fluent Hebrew on Israel Radio. "The whole issue is irrational," he said. "You can say many things about Wagner but he is not responsible for the Holocaust. This is a case where Israel can and should define itself as a democracy." Denying Israelis a chance to hear the music would indirectly, he says, condone its misuse by the Nazis.

The re-eruption of this ancient row comes as Israelis are embroiled in an ardent attempt to come to terms with the identity of their society, what it stands for, and their collective obligations to the past and to the future. Facing an unrelieved bloody conflict with the Palestinians, and the daunting idea that peace with their Arab neighbours is a pipedream, more and more Israelis refer to an existential threat to their lives. "The country", explains Mr Aschheim, "feels itself beleaguered and isolated, so it draws on fears of Jewish exclusion and persecution as a way of addressing present problems."

Beyond the deep feelings and the high words, tickets have been selling like hot cakes. Over half the

2,700 available tickets were sold two months in advance. But the Israel Festival committee was this week asked by the government and the Knesset to reconsider staging the concert. The committee is to start its discussion on May 11th, and further stormy debate is assured.

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Syria and Judaism

The disappearance of the Jews

May 10th 2001 | DAMASCUS
From The Economist print edition

Bashar Assad's brutal words

THE pope's pilgrimage in the steps of St Paul was widely seen as a success, even if it did not elicit an apology to the Muslim world for the medieval crusades. Syria's president, Bashar Assad, basked in international praise for his religious tolerance. But, notably, this tolerance was not extended to Judaism.

Welcoming John Paul, Mr Assad compared the suffering of the Palestinians to that of Jesus Christ. The Jews, he said, "tried to kill the principles of all religions with the same mentality in which they betrayed Jesus Christ and the same way they tried to betray and kill the Prophet Muhammad." The pope was taken on a detour to the town of Quneitra, flattened by the Israelis in their partial withdrawal from the Golan Heights, and called upon to bless the president's vision of a Christian-Islamic alliance to vanquish the common threat of colonising Jews.

Damascus's Jewish quarter lies off the Street Called Straight but was left unvisited by the popemobile. Ten years ago it was a thriving community of 6,000 Jews, the Arab world's largest Jewish community; today it is a derelict ghost town inhabited by 40 men, 10 women and 13 children. All others have fled.

Bashar's father, the late Hafez Assad, could be merciless, but he belonged to an age when Arab Jews were part of the landscape. Damascus had 20 functioning synagogues, and he pampered certain Jewish leaders. Today the Torah scrolls from these synagogues lie piled in a heap on the empty pews of the last one to remain open, its doors guarded by the secret police.

Syria remains, on the whole, a reasonably tolerant multi-religious society. When Holocaust revisionists tried last month to hold a conference in Beirut, intellectuals in the region signed a protest, forcing its cancellation. A just cause, they said, had no need of neo-Nazi support. But Bashar Assad's crude words add to the trends that continue to separate Jew from Arab in the Middle East.

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Development in poor countries

Not by their bootstraps alone

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From The Economist print edition

Don't expect liberalisation on its own to end poverty

HOW should a poor country become less poor? Open its economy, attract investors, export goods and free its markets, of course. But that may not be enough, according to a report by a United Nations trade and development body. UNCTAD is concerned with the world's 49 least developed countries (LDCs). Its third, ten-yearly conference on these, the poorest of the poor, opens next week in Belgium.

Heads of state, UN staffers, aid workers and businessmen will discuss how to lift such countries out of the mire. The task is huge. Excluding Bangladesh, the biggest of the poorest, these countries saw growth of real GDP per head of just 0.4% a year in 1990-98. This was despite the fact that in this period many adopted relatively liberal and open economic policies.

Using evidence from three IMF studies of poor countries that had undertaken to reform themselves, the report argues that some of them liberalised their economies more than richer ones usually do. Many of the LDCs freed their exchange rates and interest rates, and cut regulations on prices and markets for goods, including farm produce, though, crucially, many were tardy on financial reform and privatisation. Moreover, says the report, "LDCs have actually gone further than other developing countries in dismantling trade barriers". Of the 43 poorest countries studied, 37% had no tariff barriers, or only minor ones, an openness matched by only 23% of other developing countries.

In financial openness too, poor African countries (the majority of LDCs) have made great leaps forward. The report suggests that, by 1997, 18 of Africa's poorest countries, including Uganda, Mali and Zambia, had "somewhat or largely" open financial systems.

But that openness may not have made much difference, says the report's author, Charles Gore. Most of the poorest countries' economies have still fared badly, some of them even worse than before liberalisation. Many depend heavily on a single export, such as coffee, where there have been precipitous declines in prices.

Nor have donors done enough, adds Mr Gore, to encourage private investment, or to educate people how to behave in the new, open, system. Simply liberalising poor economies, without giving them support during the transition, can be a recipe for economic instability.

There are other reasons. Of the 24 poorest African countries that made reforms in the past decade, ten suffered from wars or coups. Corruption and weak governments did not help. And on them all, reformed and unreformed alike, diseases such as AIDS and malaria take a heavy toll.

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West Africa's three-country war

Diamonds are a war's best friend

May 10th 2001
From The Economist print edition

Will sanctions end the fighting?

ONE of the world's poorest countries, Liberia, had sanctions clamped on it this week by the UN Security Council. Liberia's president, Charles Taylor, is accused of spreading war from his own country to his northern neighbour, Sierra Leone, and now to his other neighbour, Guinea. If Mr Taylor is punished, the UN hopes, the fighting may die down. Will it?

Certainly Mr Taylor has helped the rebels in Sierra Leone, the Revolutionary United Front (RUF). Leading members of the RUF have been given sanctuary in Monrovia, Liberia's capital. And in December a UN report accused the Liberian government of allowing arms to be provided to the rebels in return for diamonds mined in the parts of Sierra Leone they control.

An effort has begun to stop the RUF benefiting from the diamond trade, by requiring certificates saying where the diamonds come from. But its impact will probably be nil, so long as diamonds pass through Liberia. So in March the Security Council, led by Britain and the United States, agreed to ban diamond sales from Liberia, as well as toughening the existing arms embargo on the country. The council also agreed to restrict foreign travel by senior members of Liberia's government, a way of denying Mr Taylor the international respectability he longs for.

Under pressure from other West African countries, the UN gave Liberia two months to show it had ended its support for the RUF. The deadline expired on May 7th, a few days after Kofi Annan, the UN's secretary-general, reported that Liberia had failed to cut its ties with the rebels. But Liberia's foreign minister, Monie Captan, protested this week that the sanctions—which his president calls "heartless", and part of an international conspiracy against him—would have been imposed "irrespective of what actions were taken by the Liberian government".

Sanctions are intended to tighten the screws on Mr Taylor and thus, presumably, on the rebels in Sierra Leone. The RUF has been talking to Sierra Leone's government and to the UN, which has several thousand peacekeepers in the capital, Freetown, and some other parts of the country. The three parties met in Nigeria last week to discuss how the fighting, at present restrained by a ceasefire, might be prevented from blowing up again.

The larger chaos

That, however, would not be the end of the mess. The RUF may be willing to talk in Sierra Leone, where British and UN troops have blocked its progress. But it has spread its war into Guinea, a country that runs along the northern borders of both Sierra Leone and Liberia—and here too, it seems, it is operating with Mr Taylor's support.

Since last July Guinean dissidents, with the help of RUF guerrillas, have been attacking and looting towns near the border with Liberia. Hundreds of thousands of people have been trapped by this fighting. The UN's refugee organisation is moving some 1,000 refugees a day from the border region to a camp deep inside Guinea.

The Guinean army has responded with artillery fire, but this alone has not worked. So now, in a further complication, Guinea has retaliated by supporting rebels in Liberia. These Liberian opponents of Mr

Taylor’s rule may be encouraged both by the UN’s sanctions and by Mr Taylor’s international isolation.

One lot of these rebels, known as Ulimo K, caused an upheaval last week in northern Liberia. Reports from aid workers suggest that the fighting has reached Salayei, a town only 200km (125 miles) north of Monrovia, Liberia’s capital. At the same time, some fighters loyal to Sierra Leone’s government are also thought to be crossing into Liberia. This bloody three-sided tangle may or may not frustrate Mr Taylor’s calculations. But it bodes ill for the people who live in this sprawling region.

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Nigeria and Shell

Helping, but not developing

May 10th 2001
From The Economist print edition

A report on projects supposed to help local people

CORPORATE images are as hard to clean up as oil spills, to judge by the experience of Royal Dutch/Shell's subsidiary in Nigeria. In 1995 the company's reputation suffered when the Nigerian government hanged Ken Saro-Wiwa, a political activist who had been demanding that the oil companies pay millions of dollars to local villagers. Shell denied any responsibility for Saro-Wiwa's death. But it also set out to prove that it cared for the people who lived in its production areas.

It poured more than $150m into local development schemes. The company had previously built the odd school or clinic but now it set out to work with villagers to help them build their own lives. In 1998 it appointed teams of development workers and proclaimed its commitment to "community ownership ...and participation in development."

Three years on, a report commissioned by Shell but prepared by independent consultants, makes depressing reading. Shell has not made it public. Having looked at 82 of the 408 projects on Shell's books—ranging from the electrification of villages to building schools and hospitals—the team concludes that less than a third have been successful. Farm projects and those that aim to make villages more self-sufficient by giving them the means to earn more do least well. The micro-credit schemes run by women do best.

The report finds that the company has still been decreeing too many projects from on high. Although it has tried, it is still essentially buying off the locals with gifts—some of them forced out of it by ransom-demanding kidnappers and protection-merchants—rather than helping people to develop their future.

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Zimbabwe's judges

Standing firm, at least for now

May 10th 2001 | HARARE
From The Economist print edition

The judiciary defies President Mugabe

Get article background

THE "war veterans", a motley collection of former fighters against white rule, young supporters of Robert Mugabe's ZANU-PF party and just plain thugs, are again on the rampage. The police are supine. But it takes more than threats to dismantle an independent judiciary. Despite the forced resignation of the chief justice in March, and verbal onslaughts on the judges delivered by the justice minister, the judiciary is standing up admirably to Mr Mugabe's bullying. At least so far.

The High Court accepted this week the argument made by Morgan Tsvangirai, who leads the opposition Movement for Democratic Change (MDC), that a Rhodesian-era law used to press terrorism charges against him may be illegal. The Supreme Court will now determine the constitutionality of the sections of the Law and Order (Maintenance) Act that deal with terrorism and incitement to violence.

There is a good chance that the sections will be struck down; two other parts of the act have already been declared unconstitutional. Although the new chief justice is an ally of Mr Mugabe, the four remaining justices have stubbornly resisted threats, and are dedicated to their role as upholders of individual rights.

Ironically, the Law and Order Act was used by Ian Smith's regime between 1965 and 1979 to put Robert Mugabe and other nationalist leaders in prison without trial. Now Mr Mugabe regularly uses it to suppress his opposition. Seven other MDC officials face charges under the act.

The opposition won an earlier court victory when judges nullified the elections of three ZANU-PF members of parliament because of gross violence during last year's parliamentary election campaign. In all the MDC is challenging the results in 38 constituencies. So far it has won in three and lost in three. Several judges of the High Court, which is just beneath the Supreme Court, are proving to be bravely even-handed. But shortly after delivering the verdict upholding Mr Tsvangirai's challenge, one notably independent High Court justice, James Devittie, resigned. He had apparently received death threats.

Mr Mugabe has railed against the country's judiciary as a racist vestige of British colonialism. This conveniently ignores the fact that many of the most important decisions have been made by young black judges who have come up through the legal system since independence in 1980.

Crucial legal decisions lie ahead. The war veterans, after causing havoc in the countryside, are turning their attention to the cities, which are opposition strongholds. With help from the army, they imposed an unofficial curfew, beating people at random, on the assumption that any township resident was an MDC supporter. Now, over the past two weeks, they have moved on to factories and businesses. Gangs, sometimes armed, have invaded scores of factories, abducting senior managers for "re-education sessions".

On the pretext of settling labour disputes, they have extorted large sums of money. Stolen cars and trucks are brazenly displayed as bounty at ZANU-PF headquarters. The assaults on factories, and the government's non-reaction, led, last week, to the resignation of Nkosana Moyo, the minister of trade and industry.

The factory invasions have dealt a blow to Zimbabwe's manufacturing sector, which is already reeling from 60% inflation, three years of declining GDP and an unrealistic exchange rate. Confronted with the new onslaught, several factories have simply closed down. But there is method to the madness. The MDC, Mr Mugabe calculates, is dependent on private-sector support: the factory invasions, he hopes, will make donations impossible. The war veterans also hope to undercut the trade unions by promising

workers they can get raises and better conditions by appealing to them rather than to their unions.

As well as their attack on industry, the war veterans have been threatening foreign missions in Harare. International aid projects have been looted. Diplomats were told, in a letter from the government, that if they supported the opposition they would meet the same fate as the opposition. The Canadian high commissioner was manhandled by the thugs.

Throughout all this the police have stood by, watching the lawlessness but not preventing it. The attorney-general has failed to prosecute crimes committed by government supporters, while throwing the book at the opposition for minor infringements. But the judiciary still stands firm in its defence of the rule of law.

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Shareholder activism

Europe's revolting shareholders

May 10th 2001 | FRANKFURT, PARIS AND ROME
From The Economist print edition

As more and more Europeans buy shares, companies are having to be more respectful of the little guy's rights as an investor

A FUNNY thing happened in France on May 3rd: a Paris court blocked Schneider Electric's proposed *euro*7.9 billion ($7.1 billion) takeover of Legrand, a rival maker of electrical equipment. The decision was a rare and astonishing victory for minority shareholders in Legrand, who had brought the suit arguing that the terms of the deal discriminated against the preference shares they held. Indeed, Colette Neuville, who heads a French association of small shareholders and has campaigned on their behalf for years, for the most part fruitlessly, declared herself as shocked as she was delighted.

The ruling appeared to give a powerful boost to better corporate governance in France. Schneider and Legrand might yet remake their deal entirely or offer improved terms. But the message to French companies is that they can no longer treat their investors, especially minority shareholders, with disdain. Rather, they must fairly weigh the interests of all their owners when considering mergers.

It is a message that companies across continental Europe are increasingly having to listen to. Several trends are helping to raise the volume. Thanks in large part to privatisations, more and more individuals own some shares. In Germany, for example, 6.2m people owned equities in the second half of last year, up from 3.9m in 1997. Exposure to equity markets brings with it greater awareness of what companies are up to, and a greater propensity to complain.

Consider Deutsche Telekom. The sale of its shares in 1996 was Germany's biggest stride towards popular capitalism. Punters also piled into second and third offerings. Now, though, the shares are worth only about *euro*27 ($23.90), compared with a price of *euro*66.50 for last June's third tranche. Small wonder that investors were furious when Deutsche Telekom wrote off *euro*1.5 billion from its property portfolio in February, implying that the assets had been overvalued. Two lawyers wrote a formal complaint and encouraged dozens of investors to endorse it. Deutsche Telekom has defended its accounting, but a prosecutor is looking into the matter.

Another sign is fraying nerves at Telecom Italia, an incumbent telecoms giant that was acquired in a hostile bid by Olivetti in 1999. As companies are exposed to international markets, they attract attention from interventionist-minded foreign investors. Some of this attention is unwelcome. Roberto Colaninno, boss of Telecom Italia, made clear at a shareholders' meeting on May 3rd that he is furious with Liverpool Partners, a Bermuda-based hedge fund that is trying to block a proposed *euro*10.8 billion plan to convert special savings shares into ordinary shares and buy some of them back. Liverpool Partners argues that the plan benefits Olivetti, Telecom Italia's biggest shareholder, more than anybody else. It has persuaded a group of similar funds to campaign for better terms. Mr Colaninno considers such interference utterly unwarranted.

Some outside investors have gentler intentions. Hermes, a British fund manager, has *euro*80 billion under management, of which *euro*50 billion is invested in European equities. At home, it has tried quietly using its muscle to encourage better performance among the companies in which it holds stakes. Peter Butler, who launched a successful "stakeholder" fund in Britain in 1999, says the group is in the process of launching a continental European fund that will look for similar opportunities.

Stripping out layers

The spat at Telecom Italia points to a further trend: the growing pressure on companies to abandon complex ownership and share structures that make it difficult for outside shareholders to exercise their rights. One example is the Lazard financial empire. Last December, it was forced by outside pressure to restructure, removing one layer from an infamous “cascade” of related firms through which controlling interests retained their power while tying up only limited capital. Telecom Italia itself is part of a cascade connected ultimately to Olivetti—a structure that includes Italy’s leading mobile-phone operator.

These structures have long been common in Europe, but are increasingly frowned upon. Salvatore Bragantini, head of Consob, Italy’s stockmarket regulator, says it is up to the stock exchange to introduce tougher rules against them. Observers say that there has been a steady improvement in Italian attitudes towards minority shareholders, but that there is still an old guard who cannot understand what the fuss is about.

That explains why not all efforts to boost shareholder rights are successful. This week Roche, a big Swiss drug maker, announced that it had seen off the attentions of Martin Ebner, an investor who buys shares to shake up underperforming companies. He owned 20% of Roche’s voting shares, but had failed to win a seat on its board thanks to the continuing influence of family shareholders, who control the company despite owning a mere 10% of its shares. Mr Ebner has sold his stake in Roche for $2.8 billion to Novartis, a Swiss rival, triggering talk of a possible merger between the Basle-based duo.

The recent volatility in Europe’s equity markets might act as a further spur towards shareholder activism. In Germany, many first-time investors were enthusiastic participants in the Neuer Markt, Europe’s mini-Nasdaq. But many of the companies launched on the fledgling market have since bombed, generating anger and suspicion. Klaus Schneider, chairman of an association for small shareholders known as SdK, says that investors were misled by managers, and let down by investment bankers and analysts. This summer, a court is expected to start hearing a case brought by SdK against Metabox, one of the Neuer Markt’s worst failures. SdK’s lawyers are also trying to launch cases against Deutsche Telekom and EM.TV, a Neuer Markt media company.

Redress will be hard to win, however. In Germany, as elsewhere, it is an offence for managers to give misleading information. But it is difficult to prove that they did so knowingly. Nor do shareholders always find it easy to obtain even basic facts. Mr Schneider says that his members go to about 900 shareholders’ meetings a year. Usually their questions are answered—if not always precisely. Around 15 times a year, though, the SdK has to go to court to wring answers out of reluctant boards. That contrasts sharply with Legrand shareholders’ recent moment of joy in France. It is also a reminder that progress towards better behaviour by Europe’s companies is likely to consist of the occasional small step rather than giant leaps forward.

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GE / Honeywell

Turbulence

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A $40 billion merger is in trouble with Europe's antitrust authorities

JACK WELCH must be getting used to putting on a brave face. Certainly, said GE's boss on May 8th, the company had underestimated the difficulty it would face winning regulatory clearance in Europe for its $40 billion takeover of Honeywell, the biggest industrial merger ever. He still hoped, however, that GE could persuade the European Commission to give the go-ahead. Earlier that day, GE's lawyers had received copies of a 155-page statement of objections to the deal from the commission's "merger taskforce". The deal that is supposed to crown Mr Welch's glittering career is in danger.

Hard commission

Mergers blocked by EU, 1998-May 2001

	Companies
May 1998	Deutsche Telekom/BetaResearch
May 1998	Bertelsmann/Kirch/Premiere
Sept 1999	Airtours/First Choice
Mar 2000	Volvo/Scania
June 2000	MCI WorldCom/Sprint
Jan 2001	SCA Molnlycke/Metsa Tissue

Source: European Commission

Perhaps the great man should have seen this coming. He has three times met Mario Monti, Europe's competition commissioner, and each time he has received bad news. In February, for example, he learned that Mr Monti had authorised a full investigation into the merger. By contrast, clearance in America came easily. On May 2nd, American regulators approved the deal with only minor restrictions.

In issuing such a strong list of objections, Europe's antitrust officials have parted company with their American counterparts. For example, the European Commission argues that GE has a dominant market position in the aircraft-engine industry, a view not shared in America, and bases its case on this observation. Indeed, so important is this plank that it takes up 97 pages of the statement.

This is a contentious finding. By most accounts the aircraft-engine market is highly competitive, with Rolls-Royce and Pratt & Whitney offering stiff rivalry whenever bids are sought by airframe makers. To justify its position, the commission has relied on projections that suggest GE's dominance might one day persuade a big rival to withdraw. This would reduce competition. But it is entirely theoretical.

From it stems the second main plank of the commission's objections. By buying Honeywell, GE adds a strong capability in avionics to its already formidable engine-building platform. The danger for competition is that GE might, in future, offer customers a "mixed bundle" of engine and avionics at a lower price than the items would fetch if they were sold separately. Engine-only competitors would be disadvantaged, eventually to the point of withdrawal. But this, too, is a theoretical argument. Moreover, say observers, there is nothing in the EU's current merger rules to provide a test for when bundling, if it happened, might harm competition.

GE's problem is that it now has only some three weeks to change the commission's mind. Its strategy will probably be to challenge the analysis used to justify the finding that it is dominant in engines. If it were to succeed in undermining this, the commission's argument about bundling would become much weaker and could more easily be answered by promises to avoid such behaviour. If GE fails to convince, however, it would then have to offer big compromises. And these might undermine the overall logic of the deal.

With so little time in hand, Mr Welch will have to consider options that were previously unthinkable. One, touched on by the commission, concerns GE Capital, a formidable operator in aircraft leasing. It has 1,100 aircraft on its books and always specifies GE engines when it orders new ones. Time for it to broaden its list of suppliers? That, at least, would reduce fears that in future it will add Honeywell avionics to its shopping preferences.

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Multinationals and lobbyists

Firm resolutions

May 10th 2001
From The Economist print edition

Lobbyists are increasingly using firms' annual meetings to gain publicity

THIS week, three leading green groups and some minor celebrities, including Bianca Jagger, launched a campaign to persuade drivers to shun Exxon Mobil until the oil company changes its sceptical stance on global warming and invests more in renewable energy sources. Such consumer boycotts are a popular weapon in the battle between pressure groups and multinationals. But they are not the only one: increasingly, NGOs are also using shareholder resolutions to try to change company policy.

PA

Bianca is not amused

Shareholder activism is not new. But the issues being put to the vote are moving beyond traditional corporate governance towards questions of social, environmental and ethical behaviour. Friends of the Earth (FOE), for example, is sponsoring a resolution requiring Exxon Mobil to move away from fossil fuels towards clean energy, at the company's annual meeting on May 30th.

Exxon Mobil's board has already advised shareholders to reject this proposal, which is unlikely to win much support. But as Simon McRea, investment campaigner for FOE, points out, such broad-ranging resolutions are not put forward with a view to winning the shareholder vote. Rather, they are about winning publicity and alerting executives and fund managers to the cause.

Many funds already keep a close watch on how firms deal with a variety of controversies, from genetically modified foods to third-world labour standards. This growing interest stems, in part, from changes in legislation in countries such as Britain, where new rules require pension funds to disclose how they deal with such issues. Individual investors are also starting to question fund managers. Such shareholders may not blink at the prospect of virgin Alaskan wilderness opening up for oil exploration, but they care if this poses a risk to a company's share price.

Rob Lake, head of socially responsible investment strategy at Henderson Global Investors, agrees that such resolutions help to concentrate investors' minds. With so many companies to consider, Henderson might have taken longer to examine plans by Balfour Beatty, a British engineering firm, to build the Ilisu Dam in Turkey, had FOE not put forward a resolution at last week's annual meeting for the company to adopt guidelines from the World Commission on Dams. In the end, Henderson went against the resolution, along with most voting shareholders. For most moneymen, steady dialogue with firms, rather than shareholder militancy, still seems the best way forward.

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The Philippines' San Miguel

An alcohol-fuelled fight

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The long struggle for control of the big Asian brewer has taken a new turn

DO BEER and coconuts mix? In the Philippines, they go together like business and politics. In fact, both combinations are driving a 15-year battle for control of San Miguel, the brewer of an eponymous beer and one of the Philippines' best-known companies. The three-month-old government of Gloria Macapagal Arroyo lost the latest round on May 3rd, when it failed to wrest control of San Miguel's board from Eduardo "Danding" Cojuangco, the group's boss. While Mrs Arroyo's fight against political rivals has captured the spotlight, her assault on San Miguel serves notice that she will grapple with companies that she deems to have been tainted by her political predecessors.

PA

They'll drink it, whoever owns it

Mr Cojuangco's biggest breaks in life have stemmed from his links with two presidents: Ferdinand Marcos and Joseph Estrada. In the 1960s, during Mr Cojuangco's second run for congress (he lost his first, in typical Filipino fashion, to his cousin), he supported Marcos's presidential campaign. As their alliance blossomed, Marcos rewarded him with small favours, such as dominance over the country's coconut industry. In the early 1980s, the "coconut king" chose to diversify, and bought control of San Miguel.

After Marcos fled in 1986—taking his old pal with him—the government claimed that Mr Cojuangco had bought San Miguel illicitly, using money from his United Coconut Planters Bank and a special fund for coconut farmers that he was supposed to be administering. The government seized a 47% stake in San Miguel, which it split into two roughly equal blocks.

Twelve years after Marcos fled, however, Mr Cojuangco got a second chance. When Mr Estrada, another close friend, was elected president in 1998, he put Mr Cojuangco back in charge of San Miguel. Mr Cojuangco responded by whipping his old company into shape. He has reinvigorated San Miguel's best asset, a domestic distribution system that reaches all round a disjointed archipelago. He is also buying Pure Foods, which sells mainly packaged meat, from the Philippines' Ayala Group, and he has bought back a stake in the local Coca-Cola bottling franchise, all in the hope of funnelling more goodies through his distribution network. Mr Cojuangco has been trying to push the flagship brand, San Miguel beer, into neighbouring markets such as China.

Now Mr Estrada has been toppled by the same sort of "people power" protests that brought down Marcos. This time, however, Mr Cojuangco has chosen to fight rather than flee. He has two things going for him. On January 20th, the day Mr Estrada left office, the deadline lapsed for nominating board members who represent the disputed government-owned shares. That allowed Mr Cojuangco to win re-election as chairman late last week, after Mrs Arroyo failed to replace Mr Estrada's board appointees.

More important, Mr Cojuangco has helped his chances by running the business well. Some analysts in Manila argue that he has merely improved a pitiful company by getting a few basics right, and conclude that a more professional manager is now needed to take San Miguel forward. Nevertheless, by boosting profits and doing deals, he has raised doubts about whether the government should keep challenging him. After all, he is not the most troublesome of the Estrada cronies that Mrs Arroyo will have to confront. A more difficult opponent will be Lucio Tan, the man behind a weak bank, Philippine National Bank, and an even worse airline, Philippine Airlines—and the protagonist in a hefty tax dispute.

In these and other cases, the government will face a trade-off. Should it try to wrest control away from difficult businessmen, and invest time and energy in searching for past offences? Or should it settle for reducing the executives' clout by merely scrapping sweetheart deals?

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Face value

Poacher or gamekeeper?

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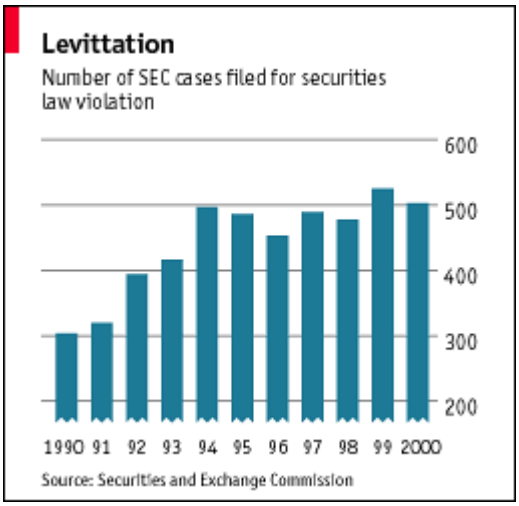
Harvey Pitt, a Washington lawyer, is to be the new head of the Securities and Exchange Commission

AFTER months of fruitless searching, the White House has at last found a candidate to run the Securities and Exchange Commission (SEC), the main regulator of America's financial markets. Harvey Pitt, whose nomination is expected to be announced any day now, is a Washington, DC, lawyer who built his career by getting the most powerful Wall Street firms and individuals out of some nasty scrapes—and most notably, out of distressing investigations by the SEC. Will he continue to help his erstwhile clients once he takes up his new job? Or will his be a classic tale of poacher turned gamekeeper?

There are precedents for dramatic conversions at the SEC. Its first head, in 1934, was Joseph Kennedy, father of President John and Senators Bobby and Ted, who made the family's fortune as a bootlegger during prohibition and as a manipulator of share prices during the bubble and crash of the 1920s. Kennedy was selected by President Franklin Roosevelt because, it was said, nobody knew better how to rig the market. He proved enough of a success that he was later sent as ambassador to London, where he was a failure.

Eight years ago, when the outgoing SEC chairman, Arthur Levitt, took the job, it was widely argued that his background as head of a stockbroking firm and then the American Stock Exchange would make him Wall Street's puppet. Instead, he thrived by using his knowledge of the financial markets to crack down on some of the most egregious abuses, making himself decidedly unpopular with the investment bankers. They now hope that the only thing Mr Pitt and Mr Levitt have in common is that they both grew up in the same neighbourhood, Crown Heights in Brooklyn.

Unlike Joseph Kennedy, Mr Pitt is no market manipulator—though he did represent one of the most notorious practitioners of that ancient craft in the 1980s, Ivan Boesky. Mr Pitt succeeded then in shifting the focus of a far-reaching probe into insider trading away from his client and on to Michael Milken, the founding father of the junk-bond market. Mr Boesky served time, but only about as much as Mr Milken, and much less than had been expected before Mr Pitt worked his magic.



For years, Mr Pitt was the lead counsel for Wall Street's trade group, the Securities Industry Association, in its largely successful attempts to delay the onset of competition from commercial banks on equal terms. In mid-1999, he successfully defended the New York Stock Exchange before the SEC in a scandal concerning the conduct of floor traders. His clients have included all the big accounting firms, not least in their recent battle against the SEC's attempts to restrict their sales of services such as consulting alongside auditing, which Mr Levitt saw as a possible threat to the independence of audits. The accounting firms are cock-a-hoop at Mr Pitt's appointment: they hope that the unsatisfactory compromise reached with Mr Levitt will now come undone—to their benefit, if not to that of investors.

Investment bankers are also hoping that Mr Pitt will backtrack from another of Mr Levitt's legacies: Regulation FD (fair disclosure). This was intended to end the old methods of disclosure of corporate information that had turned the business of securities analysis into little more than getting an early whisper from a company's management about the next quarter's profits—helping insiders at the expense of individual investors. Since it took effect earlier this year, Wall Street has been complaining endlessly

about the cost of compliance with Regulation FD and claiming that it has resulted in a less well-informed market. Mr Pitt has criticised the regulation publicly (though only when he was paid to do so). Will the public-sector Mr Pitt bear any resemblance to his private-sector forebear?

Pitt the wiser

There are some reasons to hope not. Mr Pitt may have ended up representing so many of the SEC's wealthiest opponents simply because he knows his way round securities law better than anybody else. A list of his published articles on serious-minded financial issues runs to several pages. "He is the first or second call for any weighty securities matter," says Martin Lipton, a New York lawyer who, as often as not, would be a good bet to receive the other call. Even Mr Levitt, who is said to be nervous that Mr Pitt might wreak havoc on his works, agrees that "Harvey's experience and background qualify him for the job as much as anyone in the country."

And Mr Pitt clearly has considerable affection for the SEC, where he worked in 1971-78, spending his last three years as general counsel. Last year, he was one of around a dozen founding members of the SEC Historical Committee, a group including several ex-heads of the commission and powerful lawyers. While defending his clients before the SEC, he has been noticed sporting special cufflinks that could be purchased only by senior staff of the regulator—although some observers reckon that the choice of attire might have had tactical intent. That he is willing to take a big pay cut also suggests that he puts a high value on doing a job for the public that several other candidates turned down.

Having served his private paymasters by fighting the SEC, perhaps Mr Pitt will now give the millions of small investors who pay his salary through their taxes their due: a more effective SEC. Under Mr Levitt, the regulator regained its reputation as friend of the small investor. Ironically enough, this benefited Wall Street, for all its hostility to Mr Levitt's every move, by increasing public confidence in the markets. Mr Pitt would do well to use his brilliance to build on the legacy he inherits, and resist any temptation to give too much to his old poaching pals at the banks and stockbroking houses.

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Airlines

A crunch in the cockpit

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As airline profits fall, pilots' pay is rising

PASSENGERS beware: pilots are angry. On May 9th German travellers faced a second strike in a week at Lufthansa, after pilots walked out of pay talks yet again. Meanwhile, Americans are braced for another awful summer as pay negotiations start at the country's largest carrier, American Airlines. These could be rough: AA's management remains hardline, even though its pilots have seen colleagues at other airlines, starting with United last autumn, winning bumper rises of around 45%. The United dispute, in which pilots opted for a "sick-out" rather than an outright strike, disrupted holiday travel across America.

The effects are still being felt. Pilots at Comair, a regional subsidiary of Delta Air Lines, who have been on strike since late March, are about to vote on a pay offer. Their colleagues at the parent company will vote in June on a deal offering rises of 23-39% over four years, which would push a senior captain's salary over $300,000. Lufthansa's pilots are looking for similar rises, of 30-35% over four years, but the management's latest offer was only 18%. A strike could cost Lufthansa upwards of *euro*25m ($22.5m) a day, so pressure to settle is high. Few airlines could survive being grounded for more than six weeks.

Big pay rises for pilots encourage others to aim high. This week, Northwest agreed to give its mechanics an immediate 24% rise, with more to come. Labour already accounts for 36% of an average airline's operating expenses. Airlines fear being squeezed just as profits fall after several healthy years. The seven largest American airlines lost a combined $701m in the first quarter of this year, compared with profits of $128m a year ago. Only Southwest and Continental stayed in profit and, as it happens, free of labour troubles. Lufthansa's first-quarter profit collapsed to *euro*5m, from *euro*99m last year.

Underpinning all this is a worldwide pilot shortage, in an industry growing by 5% a year. On the supply side, the main problem is shrinking air forces. America's military used to provide up to 80% of trainee civil pilots; it now accounts for half. Boeing forecasts that the number of airliners in service will double to around 32,000 over the next 20 years, and that severe pilot shortages will occur by 2005. EasyJet, a fast-growing low-fare carrier based in Britain, is scouring the world for pilots, offering sign-on fees of £30,000 ($43,000). America is considering raising the retirement age for pilots from 60 to 63, following similar moves in Europe. As bleak as this sounds, though, a shortage of pilots could be exactly what the airline industry needs to cure its other headache: congestion.

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Software

An open and shut case

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What is behind Microsoft's attack on open-source software?

BEWARE of open-source software, those nefarious free computer programs written online by groups of volunteers. The licence that comes with most of this code could turn a company's intellectual property into a public good. More important, it undermines the livelihood of commercial-software developers, putting a brake on innovation. This, in a nutshell, was the message that Craig Mundie, Microsoft's chief software strategist, tried to convey on May 3rd in a headline-making speech at New York University.

Open-source disciples were quick to dismiss Mr Mundie's speech as just another example of Microsoft's trademark strategy: spreading fear, uncertainty and doubt to undermine rivals. To Mr Mundie, research and development seem to be driven mainly by intellectual-property rights, commented Linus Torvalds, the creator of Linux, a popular free operating system, "which is entirely ignoring the fact that pretty much all of modern science and technology is founded on very similar ideals to open source."

Mr Mundie's message played cleverly to the prejudices that are still held by many corporate technology officers. Most open-source software is "viral"—the licence that comes with Linux, for instance, says all changes made to the program must be made freely available. But this does not mean that a company using Linux is forced to give away any application it writes for the operating system or, worse, its business processes. And while it is true that open-source software competes with commercial programs, open-source and similar online groups have been at least as innovative as software firms—creating, for example, most of the technology underlying the Internet.

Yet Mr Mundie's speech and the reaction of the open-sourcers have some value, because the exchange has sharpened the debate within the software industry over the relative merits of two rival approaches. One way to write software, the proprietary approach, is best epitomised by Microsoft. The firm hires the most driven programmers, pays them a lot in share options, works them hard—and then sells the product in a form that customers can use, but not change (because it comes without the "source code", the set of computer instructions underlying a program). The other approach is open source. Motivated by fame not fortune, volunteers collectively work on the source code for a program, which is freely available. Most of these projects are overseen by a "benevolent dictator", such as Mr Torvalds.

Although no panacea, open-source software has several advantages over proprietary programs, besides being free. Most important, it tends to be more robust and secure, because the source code can be scrutinised by anyone, which makes it more likely that programming errors and security holes will be found. In contrast, hardly a week passes without headlines about a new security hole in a Microsoft program. The day before Mr Mundie's speech, it was reported that a potentially serious security flaw had been found in one of Windows 2000's server programs.

Open source is not so much the ideological cause of anti-Microsoft hackers as a profound effect of the Internet, which means that it is here to stay. The emergence of free, open-source alternatives to costly proprietary software will undoubtedly hurt Microsoft—hence Mr Mundie's speech. In a further swipe at open source, Microsoft this week launched a new range of server software that, it claimed, offers "superior value" to Linux, by providing "clarity of intellectual ownership" and "predictability of the development process". In other words, says Microsoft, proprietary software is best because there is no doubt which company owns and maintains it—and, of course, charges for it.

At the same time, Microsoft is also deploying another of its favoured strategies, called "embrace and extend". It now grants its largest customers access to the source code of Windows 2000, on condition

that they do not modify the program or reuse the code. Microsoft thus wants to harness what it considers to be the benefits of open source, such as improved debugging. Mr Mundie said this “balanced” approach would maintain “the intellectual property needed to support a strong software business”.

To advocates of the open-source approach, this looks very much like one-way sharing. Customers can look at the source code of Windows, tell Microsoft about bugs and suggest improvements, thus saving the firm a lot of money—but they still have to pay for the next version.

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The satellite industry

Wounded birds

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The satellite industry's future once stood on three promising legs: mobile voice, broadband Internet and digital television. Soon only one of these may be left

WHAT could Rupert Murdoch be thinking? Or, for that matter, Microsoft? Satellites, as everybody knows, are a financial black hole that has claimed Iridium, ICO and Globalstar, along with tens of billions of dollars of investors' money, over the past two years. Yet Mr Murdoch and Microsoft are teaming up to make a multibillion-dollar bid for a controlling stake in Hughes's DirecTV, a digital satellite broadcaster. Is it possible that the skies are again safe for big metal birds?

Only certain kinds. TV broadcasting is still a profitable business and digital broadcasting potentially even more so. Mr Murdoch's satellite-broadcasting successes in Asia and Europe have driven him to realise his world ambitions with an American presence; his talks with Hughes are the culmination of a long courtship. But there is more to the satellite industry than TV broadcasting, or even the relatively simple "sky-bridge" role that voice and data satellites have played across oceans and in remote regions. The Murdoch/Microsoft bid is notable not so much for creating an innovative new model as for avoiding the failed ones that have afflicted the industry in recent years.

In the 1990s, satellites captured the imagination of companies and investors alike. The rise of digital technology created insatiable demand for data and also the means to deliver the stuff in a new way from space. However, one problem with the most common, "geostationary" type of satellite aloft today is that, to serve an area all the time, it must be parked far enough from the earth that it can match the rotation of the planet exactly and stay over a fixed point on the ground. Although this is simple, it carries two disadvantages: signals take half a second to reach the satellite and return; and, because the satellite is so far away, they are weak by the time they hit earth. This is not serious for TV broadcasts. But for two-way applications, such as voice and data, it can cause trouble.

Smarter satellites, made possible by advances in computing, can solve such problems by flying in low-orbit constellations of dozens or even hundreds of units, passing data to one another at high speed. Such low-earth-orbit (LEO) satellites have stronger signals, and can thus send more data to each user. They can work with weaker signals from ground transmitters, including handheld devices. And they avoid most of the round-trip delay of higher satellites, making them a better choice for voice and video-conferencing.

The first application of the LEO model was mobile telephony, in the form of Iridium, Globalstar and ICO. The next was to be a broadband "Internet-in-the-sky", epitomised by Teledesic, a project launched by Craig McCaw, a wireless pioneer, and partly funded by Bill Gates. The failure of the mobile-phone satellites is legendary: aside from their huge costs and complexity, they underestimated the speed at which terrestrial competition, in the form of wireless networks, would take off. By the time Iridium came to market, most of the customers it was hoping for were well served by ordinary mobile phones. Its collapse endangered Globalstar and ICO.

This highlights a big problem with satellites: the long wait between design and profitability. Manufacturers must "lock down" the technology at least three years before launch; but many satellites do not make money until 10-12 years after they go into orbit. So satellite firms must make a bet on a market as much as 15 years in the future. For new services with untested demand, the risk that the market will shift dramatically between design and orbit—or never emerge at all—is huge.

The tale of mobile telephony may repeat itself for broadband data. Since the early 1990s, when Teledesic was conceived, the market has shifted. The stockmarket boom poured billions of dollars into laying new fibre-optic cables at a far faster rate than Teledesic had expected. Its main market, small and medium-sized businesses or those in remote locations, is now largely being served by terrestrial telecoms firms. It is hard to compete with fibre: a single strand can carry more data than all existing data satellites combined, according to Telegeography, a telecoms consultancy based in Washington, DC.

The main appeal of LEO constellations—shorter delays—now appears to be less important for Internet applications than had been expected. Compared with the delays that users experience every day with the Internet, a half-second wait to download a page is no big deal. Only a few niche applications, such as voice telephony over the Internet or games, are seriously affected by the delays of normal satellites—witness the number of Internet service providers in the developing world that happily use geostationary satellites to connect to networks in America or Europe. The LEO approach means “spending a lot for some relatively marginal benefit,” says William Kidd, a satellite analyst with CE Unterberg Towbin, an investment bank.

By the time Teledesic was ready to consider spending money to build its satellites, the capital markets had been struck by the double blow of Iridium and the Nasdaq crash. All this leaves Teledesic’s future up in the air. The firm says it is evaluating its options, and it has for now put off a planned merger with ICO, a data-and-voice system that Mr McCaw rescued from bankruptcy. In the meantime, its projected launch date has been pushed back to 2005.

All is not lost, however. For one thing, Teledesic has the great advantage of being able to rethink its future before building its fleet. It may be slashing its staff, but it does not have to face the prospect of sending brand-new satellites into a fiery re-entry, as Iridium did. Between Teledesic and ICO, Mr McCaw is also sitting on vast amounts of valuable spectrum; among his ideas to make use of it is a network of terrestrial base stations that repeat satellite signals, reaching users in places such signals cannot go, such as inside buildings.

The best prospect for satellites that transmit Internet data may be variations of what is already in orbit. A number of geostationary satellites will be launched over the next few years, using a spectrum band that allows more data than now. Because the geostationary approach allows satellites to be launched one at a time, as demand warrants (LEOs all need to be in place before the constellation works properly), these projects are more likely to survive the capital markets’ scepticism. But they are a modest bet compared with the grand ambitions of Teledesic. Talk of a broadband Internet in the sky is now as rare as an Iridium handset.

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Publishing

Journal wars

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Big publishers are tightening their grip on the lucrative science-journal market

WHEN American antitrust officials gave the go-ahead on May 7th to Reed Elsevier, an Anglo-Dutch publishing giant, to buy Harcourt General, an American publisher, for $4.5 billion, the relief at Reed was as palpable as the dismay among scientists. The approval of the acquisition, announced last year, tightens Reed's grip on the science-journal market at a time when publishers of such journals face not only fierce denunciation by academics, but serious efforts to undermine their business.

Worth some $10 billion, the market is hugely profitable: margins in the scientific and medical business at Reed Elsevier are around 35%, compared with an average of 20% for all of its publishing interests. If a company owns the must-read title in, say, vibrational spectroscopy, it has a nice little captive market. When combined with Harcourt, Reed Elsevier will control some 20% of the science-journal market, and add a further 500 journals to its 1,200-strong stable.

But science publishers are still fretting, especially about the risk that the Internet might do them out of a job. Most journals rely on academics contributing their papers free. The publishers then sell them on to university libraries, pocketing a tidy profit on the way. Since scientists need to publish in recognised journals in order to make their names and apply for tenured jobs, this arrangement works just fine—as long as both sides co-operate.

Recently, however, scientists have been grumbling, for several reasons. They say that the publishers are too mean to open the online versions of their journals and their archives to non-subscribers, denying scientists an even wider audience. They complain about the time it takes for a scientist to see his latest thoughts in print. And they also grouse that the publishers have raised prices too steeply.

According to the Washington-based Association of Research Libraries, the average cost of an annual subscription to an academic journal shot up by 207% between 1986 and 1999. In response, the number of journals bought by libraries dropped by 6% over that period. It now costs a remarkable $17,444 a year to subscribe to *Brain Research*, a Reed Elsevier title.

Can the scientists translate their discontent into a commercial threat? Plainly, if they were to refuse en masse to submit their papers to the journals, the business would collapse. Indeed, a petition is now circulating from a group calling itself the Public Library of Science, urging scientists to boycott any publisher that will not relinquish the rights to published bio-medical papers after six months. Other campaigners go further, urging academics to "liberate" their research from the gatekeeping publishers by posting papers online from the start.

There are also some attempts to compete head-on with the established periodicals. In 1999, a group of respected scientists, along with the American Chemical Society, launched a journal called *Organic Letters*, designed to rival *Tetrahedron Letters*, a chemistry title owned by Reed Elsevier. The new journal attracted more than 500 manuscripts in its first 100 days. A subscription costs $2,438, compared with $9,036 for the Reed title. The periodical is now seen as a credible competitor.

For now, the publishers' trump card is that their ownership of a prestigious title gives them vast powers of validation. Any aspiring scientist can put a research paper on his website. But few within the discipline will pay it any attention unless it has undergone the vetting and peer review of a respected journal.

The publishers say they are ready to discuss a compromise. "If we can find a model where we recoup our costs, then maybe we can make the archive available to the general public," concedes Derk Haank, head of Reed Elsevier's scientific, medical and technical division. The firm's takeover of Harcourt has yet to clear Britain's competition authority. But now that Reed Elsevier has been allowed to consolidate its control in America, the grip of the publishers looks firmer than ever.

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What's left?

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This year's fall in American productivity might be seen as the death knell of the "new economy". But its obituary would be premature

THE announcement on May 8th that America's productivity declined in the first quarter of 2001 at an annual rate of 0.1%, compared with growth of more than 5% during the year to June 2000, is a blow for the IT-powered new economy. One by one, its claims to be special are being exposed as myths. Now it seems that the widely-held belief that America's sustainable rate of productivity growth had doubled to around 3% was also mere myth. That does not mean, however, that the new economy was entirely hot air.

Its cheerleaders have certainly been muffled this year by the plunge in the Nasdaq high-tech stockmarket index, by the collapse of dotcom firms, by the slump in the profits of Internet giants such as Cisco (which this week reported its first quarterly loss in 11 years and a 30% decline in sales), and by signs that the American economy may be heading into recession. The new-economy sceptics, who long argued that computers and the Internet did not rate in the same economic league as electricity or the car, are now grinning smugly. They have a long list of unfulfilled promises to point to.

•**The cycle**. Top of the list is the idea that the traditional business cycle is dead. Now that America's economy is slowing sharply and unemployment is rising, everybody is trying to deny that they ever made such a claim. Instead, they argue that IT helps to smooth the cycle. But even that claim looks suspect: if America's GDP growth this year slows to the average forecast of 1.5%, then the decline in growth from 5% last year would be very abrupt indeed. And because of the excesses that have built up during the boom years—such as too much investment and too little saving—there is a high risk that the downturn could be much deeper. If America's GDP growth were to fall below 1% this year, it would be the sharpest slowdown between any two years since the 1974-75 oil crisis. So much for smoothing.

•**Inventories**. One reason why IT was supposed to smooth out the economic cycle was that fancy computer systems and instant information would allow firms to ensure that production never got too far ahead of sales, and would thus avoid an excessive build-up of inventories. Yet despite spending millions on cutting-edge software, firms failed to spot the slowdown late last year, and now they have warehouses bulging with unwanted stocks. Cisco was supposed to be the very model of modern electronic business, using the Internet to make sales, order components and monitor inventories. But it, too, has been badly caught out. The firm was forced to write down $2.2 billion-worth of excess stocks in the three months to April—equivalent to almost 50% of its sales during the period.

Across the economy as a whole, "just-in-time" inventory management has reduced the ratio of inventories to sales. But it cannot guard against excessive stocks when shocks occur. It can only ensure that for any given shock, the error is smaller than it would otherwise have been. So far, the build-up in stocks is modest given how sharply demand has fallen. But it is far from negligible.

•**Investment**. The third myth of the new economy was that IT spending was recession-proof. Demand for IT equipment, it was argued, would continue to grow briskly throughout any downturn in the old

economy because the pace of innovation was so fast that existing IT equipment would rapidly become obsolete. Firms would be forced to keep investing merely to stay competitive.

In reality, as profits have fallen, firms have decided that they can easily delay buying new PCs or upgrading their e-mail systems. In the first quarter of this year, investment in IT equipment and software in America fell at an annual rate of 6.5% in real terms, after rising at an average annual rate of 25% during the period 1995 to 2000. New orders for electronic goods fell at an annualised rate of almost 20% in the first quarter, signalling that bigger cuts are in the pipeline.

•**Profits**. Myth number four was that corporate profits would continue to rise rapidly for years to come. Average profits now look set to fall by at least 10% in 2001. Late last year, equity analysts were forecasting average long-term profits growth of 19%. That has now been revised down to 12%, but it still looks far too optimistic. It implies that profits will account for an ever-rising share of GDP. Yet historically, profits have tended to increase broadly in line with nominal GDP. If anything, the ratio of profits to GDP should now be falling slightly, because IT is likely to trim profit margins by increasing price transparency and shifting power from sellers to buyers.

•**Share prices**. The fifth (and silliest) claim was that in this new world of rapid technological change, old methods of share valuation had become irrelevant. Profits were for wimps, it claimed. Falls of 90-100% in the share prices of loss-making dotcom firms show that profits do matter after all. During previous technological revolutions (spurred by the invention of the railways, electricity or the automobile, for example) share prices similarly soared and then tumbled. But this time prices rose to a higher level in relation to profits than ever before in history.

The productivity puzzle

What about the most important claim of the new economy, namely that investment in IT has lifted productivity growth? The fall in productivity this year appears to confirm that this was also a myth. But America's productivity gains cannot be dismissed so easily. Recent estimates of sustainable productivity growth were almost certainly too optimistic, but there is still reason to believe that some of the productivity gains will survive even as the IT boom turns to bust.

Labour productivity growth in America's non-farm business sector rose to an annual average of almost 3% over the five years to 2000, up from 1.4% between 1975 and 1995. This faster productivity growth has been the lifeblood of claims about the new economy. It helped to deliver faster GDP growth with low inflation, higher profits and a large budget surplus.

One of the hottest debates in economics for the past few years has been about how much of this increase in productivity growth was structural and how much of it was cyclical. During boom times firms tend to work their employees harder, producing a cyclical rise in productivity growth, which then declines during the subsequent recession.

Robert Gordon, an economist at America's Northwestern University, and one of the most outspoken new-economy sceptics, reckons that outside the manufacture of computers and other durable goods there has been no increase in labour productivity growth after adjusting for the effects of the economic cycle. As a result, he estimated last year that America's structural productivity growth was somewhere around 2%.

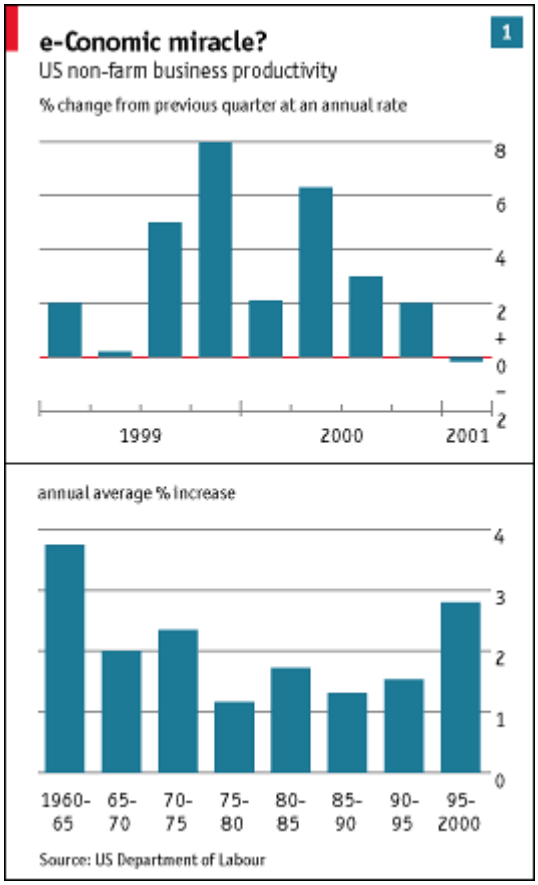
At the other extreme, two studies published early this year—one by the president's Council of Economic Advisers and the other by the Federal Reserve—both conclude that virtually all the increase in labour productivity growth since 1995 has been structural, putting the sustainable rate at close to 3%.

It is hard to believe that none of the increase in productivity growth was cyclical, given the strength of the recent economic boom. On the other hand, microeconomic studies appear to

confirm that a sizeable chunk of the increase has been structural. A study by Kevin Stiroh, an economist at the Federal Reserve Bank of New York, examined productivity growth in individual industries. Mr Stiroh found that those industries which invested most in IT in the early 1990s saw the biggest productivity gains in the late 1990s. If the increase in productivity growth had been largely cyclical, the gains should have been more equally spread across industries.

By late last year, as the reported productivity growth figures looked stronger and stronger, a consensus emerged among most economists, including those at America's Federal Reserve and the OECD, that America's structural rate of productivity growth had increased to around 3%.

By itself, the fall in productivity in the first quarter sheds little new light on the issue because quarterly figures tend to jump about a lot. Also, productivity growth always dips as growth slows because firms delay cutting jobs—although the sharp rise in joblessness in America last month suggests that employers there are now wielding the axe. Productivity has held up quite well so far compared with previous downturns: it is still 2.8% higher than a year ago. But we need to wait for a full economic cycle to get the complete picture.



If the fall in productivity growth over the past year is only cyclical (and due to weaker demand) then, once the economy recovers, productivity growth should resume its faster trend. What is becoming increasingly clear, however, is that the productivity gains in recent years were not only exaggerated by the cyclical impact of the economic boom, they were also inflated by an unsustainable IT investment boom that has now turned to bust.

Investing in IT can increase labour productivity either by increasing the amount of capital employed per worker (ie, "capital deepening") or by speeding up total factor productivity (TFP—the efficiency with which both capital and labour are used). Unlike previous spurts in America's productivity growth, the recent one has been unusually dependent on capital deepening rather than on TFP. A study last year, by Stephen Oliner and Daniel Sichel at the Federal Reserve, concluded that almost half of the acceleration in productivity growth between the first and second halves of the 1990s was due to capital deepening. If that is so, a decline in IT investment will have worrying implications for future productivity growth.

Deepening concerns

The IT investment boom was unsustainable. The initial rise in productivity growth during the 1990s generated bumper profits, which encouraged firms to become over-optimistic about future returns. At the same time, the stockmarket bubble pushed capital costs down to virtually zero. The inevitable result was over-investment. Credit Suisse First Boston (CSFB) estimates that American firms have overspent on IT equipment to the tune of $190 billion over the past two years.

Now, as profits plunge, firms are being forced to cut their investment plans. CSFB suggests that if firms try to eliminate the surplus over two years, real IT investment will need to fall by an average of 16% this year and next. If firms try to extend the life of their existing IT equipment during the downturn, then new investment would have to fall by even more.

One year's dip in investment would have only a modest impact on structural productivity growth if capital spending were then to bounce back strongly. More important is the longer-term trend in investment. America's business capital stock has recently been growing at a real annual rate of over 5%, well in excess of the growth in GDP. Jan Hatzius, an economist at Goldman Sachs, estimates that the trend growth in the capital stock will now slow to 3-3.5%. If so, estimates Mr Hatzius, the contribution of capital deepening to labour productivity growth will be reduced to 0.75%, half its recent rate.

Mr Hatzius also expects the growth in total factor productivity to slow as the cyclical boost to productivity fades, and as efficiency gains in computer manufacturing diminish. One measure of the latter is the pace

of price deflation for IT equipment. Price deflation accelerated in the late 1990s, partly because of increased competition and partly because of increased efficiency in the manufacture of chips. But it has since slowed. Computer prices fell by 16% in the year to the end of March, down from an average annual decline of 25% in the previous five years.

Putting all this together, Goldman Sachs has reduced its estimate of underlying productivity growth to a more modest 2.25%. That would be barely half the rate of productivity growth in 2000, but it would still be significantly higher than the 1.4% average annual rate recorded between 1975 and 1995. Only if investment stagnated for several years would productivity growth revert to its pre-1995 pace.

And that seems unlikely. The IT boom was mainly driven by falling IT prices that were following Moore's law, which states that the processing power of a silicon chip roughly doubles every 18 months. This encouraged firms to substitute IT equipment for labour or other capital. Scientists believe that Moore's law should hold for at least another ten years, allowing IT prices to continue to fall and hence encouraging further IT capital deepening, albeit at a slower pace than in recent years.

Yet to be revealed

Not only is the pace of technological innovation likely to continue to support productivity growth for at least another decade, but firms have yet to exploit fully the potential of their existing IT. It is not just the direct impact of computers and the Internet on productivity that matters, but also the ability of firms to organise their businesses more efficiently as a result. Just as the steam age moved production from the household to the factory, railways allowed the development of mass markets, and electricity made possible the assembly line, so IT allows for a more efficient business organisation.

Tossing aside all the hype, there are sound reasons for expecting IT to continue to boost productivity. By increasing access to information, it helps to make markets work more efficiently and it reduces transaction costs. Better-informed markets should ensure that resources are allocated to their most productive use. The most important aspect of the new economy was never the shift to high-tech industries; it was the way in which IT could improve the efficiency of old-economy firms.

A study by Alice Rivlin and Robert Litan at the Brookings Institution, a Washington think-tank, considers ways in which the Internet might further lift productivity growth. It examines how leading-edge firms are using the Internet to reduce transaction costs, to boost the efficiency of supply-chain management, and to improve communications with customers and suppliers. It then projects best practice across each sector.

The study's tentative conclusion is that the economy as a whole can look forward to productivity gains from the Internet of 0.2-0.4% a year for the next five years. The potential cost savings look especially large in the health-care industry, where there is plenty of scope to improve the management of medical records and to communicate better with patients. Only 3% of Americans have so far corresponded with their doctor by e-mail; the rest still use more time-consuming methods, such as the telephone or a personal visit.

It is also worth remembering that not all of America's productivity growth in recent years has come from IT. Some of it has been the pay-off from earlier economic deregulation designed to make labour, product and capital markets work more efficiently. Whatever happens to IT spending, these benefits will endure.

High-tech investment and productivity growth are, however, unlikely to return to the giddy pace of the past two years. The best guess is that productivity growth will average 2-2.5% per year over the next decade, still well above the pace of the 1970s and 1980s. Those who claimed that 3-3.5% growth was sustainable will be disappointed, but their expectations were far too bold. They implied that IT would have a much bigger economic impact than cars and electricity did in the 1920s, when annual labour productivity growth in the non-farm business sector averaged 2.5%.

Slower-than-expected growth in productivity has two implications for policymakers, however. First, after taking account of labour-market changes, it means the rate at which the Fed can safely allow the economy to grow without pushing up inflation is 3-3.5%, much less than in recent years. Second, it implies a smaller budget surplus—and hence less room for tax cuts. Back-of-the-envelope calculations by Goldman Sachs suggest that if

productivity growth falls to 2.25%, the cumulative budget surplus in the years 2002-11 would fall to just over $2 trillion, as against the $3.1 trillion estimated by the Congressional Budget Office.

In recent years, economists have tended to exaggerate about IT. Either they have denied that anything has changed, or they have insisted that everything has changed. The truth, as ever, lay somewhere in the middle.

Future productivity gains from computers and the Internet will probably not be enough to justify current share prices, even after this year's slide, but they will still matter. An increase in productivity growth of 0.5-1.0 percentage points per annum may not sound very exciting, but it will lift future living standards and make it easier for the government to pay tomorrow's pensions. That, rather than the get-rich-quick culture of the dotcoms, is the true stuff of the new economy.

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Telecoms debt

Unburdening

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Europe's telecoms giants are wrestling with debt and poor ratings, to the joy of financial traders

Get article background

THE mad rush to bid for third-generation (3G) mobile-phone licences in Europe—$125 billion for the licences, with the same again needed to build the networks—has left telecoms companies with a stunning amount of debt: over $200 billion for the six biggest licence-holders alone. They are trying to cut that debt pile by every possible means, for the threat that falling share prices, rising financing costs and downgraded credit might push some to the brink is all too real.

For traders in credit exposure, on the other hand—those who deal in telecoms bonds, loans and credit derivatives—these are glory days. There has been plenty of volatility in these instruments, which traders love. The fun will last for months, if not years, as the telecoms giants reinvent themselves or die.

At the telecoms companies, penny-pinching is in, extravagance out. Take one of the firms least exposed to 3G, Telecom Italia (TI). It has a mere *euro*19 billion ($17 billion) of debt, and wants to cut that to *euro*13.5 billion by the end of 2003. It plans to be the first European operator to sell some future revenue from fixed-line subscribers as public bonds, in the form of asset-backed securities. These are not a new invention—since the mid-1980s, banks have repackaged and sold as securities anything from car loans to music royalties. Securitising phone calls in a complex piece of financial wizardry might, in the case of TI, save *euro*20m over five years.

Two years ago, such a sum would have been insulting as a success fee for a chief executive or investment banker after a telecoms acquisition. So why bother? Because these companies are desperate to raise their credit ratings from the disgrace of triple-B, roughly where most languish now. If a rating falls any lower, bonds are considered to be below investment grade, and so will be shunned by some of the world's biggest investment institutions.

Britain's BT, with £30 billion ($43 billion) of debts, has become another desperate case. In the past few weeks it has unloaded foreign assets, like so much ballast, in an attempt to show shareholders, bondholders and other creditors that it is not in free fall. On May 10th BT announced a rights issue of £5.9 billion, at a deep discount. It also confirmed that it was selling more assets and axeing its dividend.

In March France Telecom, with nearly *euro*70 billion in debts, launched a huge bond issue which helped to take *euro*10 billion of loans off the books of its banks and refinance *euro*6 billion of maturing bonds. This did not reduce its debt, but it sent a message that the bingeing was over and the retrenchment had begun. In the credit markets for bonds, loans and credit derivatives, spreads that had been wide began to narrow (see chart).

France Telecom now plans to reduce its debt by *euro*20 billion–30 billion by 2003, bringing its burden back to the levels before it bought Orange from Vodafone last year. It will sell *euro*15 billion–20 billion of "non-strategic" assets (did it acquire them with no strategy in mind?). It plans to buy back and sell in the market the shares that Vodafone took in part-payment for Orange, now worth perhaps *euro*2.5 billion–5 billion. Like TI, it also plans to securitise future receivables from its fixed-line subscribers.

Deutsche Telekom, with almost *euro*50 billion of debts, says it will cut its burden this year by close to *euro*30 billion. It has done little so far. It has been forced by market turbulence to delay the flotation of its mobile arm, T-Mobil. It also has around *euro*15 billion of property to unload. In the meantime, it has won approval to take over VoiceStream, an American wireless service provider, in exchange for shares and $5 billion in cash.

Two other incumbent telecoms companies, KPN of the Netherlands and Sonera of Finland, are in greater trouble, because their debt is higher relative to their cashflow, and they have less of a pan-European reach. KPN has had difficulty refinancing its debt, as its credit rating has slid. On May 3rd Sonera was downgraded two notches by Moody's, a rating agency. Both companies have assets to sell: on May 9th Sonera sold a chunk of its holding in VoiceStream. There is speculation that KPN may be broken up. It all promises plenty of work for investment banks, unbundling the behemoths they helped build.

It is still unlikely that any of the big telecoms companies will actually go bankrupt. All the same, the market that trades in the probability of their failure is flourishing. Credit-default swaps—where protection against loss through default is sold by banks to investors, or vice versa—are the keenest indicator of these companies' credit standings in the market. Bonds and loan prices are complicated by other factors, such as liquidity, currency risk and interest-rate risk. Credit-default swaps can be bought as protection against the default of a bond or loan, or they can be sold to create some income in exchange for guaranteeing a credit exposure.

Because telecoms debts are so vast, and perceptions of risk so volatile, there is lively interest from traders, brokers, analysts and investors. This week America's WorldCom launched the country's biggest-ever corporate-bond issue, worth $11.9 billion. All this is far more fun than government bonds. Loans can be repackaged, rated and sold. Holdings of one company's bonds can be switched for those of another, as credit ratings change. And when debt turns dull, there is always equity. These companies are forever seeking the right mix in their ratio of debt to equity—now trying to please shareholders, now creditors. It certainly keeps volatility junkies happy.

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The International Monetary Fund

Strains at the top

May 10th 2001 | WASHINGTON, DC
From The Economist print edition

In losing its number two, the IMF is starting to look careless

PITY Horst Köhler, managing director of the International Monetary Fund: his senior staff seem to be deserting him. On May 8th Stanley Fischer, the Fund's highly regarded number two, announced that he was leaving as soon as a replacement could be found. After playing a key role in every emerging-market financial crisis, from Mexico in 1994 to the recent messes in Argentina and Turkey, Mr Fischer has an enviable reputation for economic rigour and political deftness, both inside and outside the IMF. His departure will leave a huge hole.

Reuters

Stan Fischer, the man for a crisis

Nor is he the only loss. On March 7th Michael Mussa, long-time head of the research department and another intellectual powerhouse, announced that he was leaving. Rumours are rife that Jack Boorman, head of the policy review department and perhaps the third most powerful man in the Fund, is also about to quit.

For a hierarchical institution run by a small number of top people, these are big losses, and they come at a tricky time. George Bush's administration has taken a noticeably more hands-off attitude towards the IMF than did the Clinton Treasury. With several emerging markets in trouble, the Fund needs all its experienced hands. Coming barely a year after the arrival of Mr Köhler, the losses of such senior people smack of troubles at the top.

In public, nobody will admit anything of the sort. Mr Fischer talks of its being a moment for "other challenges". He has done the job for seven years; it is time to move on. Personal considerations have played a role with the others. Yet privately, insiders admit that the departures have much to do with the Fund's new boss.

Mr Fischer's relationship with Mr Köhler was tricky, for Mr Fischer had temporarily run the Fund before Mr Köhler's arrival and, at the behest of many poor countries, himself stood for the top job. His failure to get it owed much to political horse-trading: the job traditionally goes to a European, and Mr Fischer is a naturalised American. On merit alone, Mr Fischer was widely judged to be a better candidate than Mr Köhler, a point not lost on the boss. Still, their personal relationship was not acrimonious. The problem was Mr Köhler's style.

Mr Köhler came to the IMF from the European Bank for Reconstruction and Development (EBRD) with a reputation for being difficult to work with: he frequently yelled at and hectored staff. That style, it appears, has continued at the Fund and is viewed askance by senior staff who pride themselves on being collegial. (Mr Köhler suffered some of the same consequences at the EBRD. Nick Stern, now the World Bank's chief economist, resigned as the EBRD's chief economist one year after Mr Köhler's arrival.)

It is proving hard to recruit a top academic to succeed Mr Mussa. Olivier Blanchard, a respected economist from MIT, was tipped for the job. He has now decided he is not interested: since Messrs Blanchard and Fischer are close friends and former colleagues, Mr Fischer's resignation was almost certainly a reason. The mood at the Fund this week was gloomy. Economists across the organisation bemoan the loss of its intellectual leadership and fret that they may get second-raters instead.

In looking for replacements, Mr Köhler is said to favour Tim Geitner, formerly an undersecretary in the Clinton Treasury, for either Mr Boorman's or, now, Mr Fischer's job. But the Bush Treasury department, which has a veto on the number two job, may disagree. Although Mr Geitner has worked for Republicans as a career civil servant, he may be tainted by his close association with the Clinton mob. Whatever, to dispel the impression that his management is in trouble, Mr Köhler needs to make sure that good people

are found fast—and that they stay.

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Human and social capital

What money can't buy

May 10th 2001
From The Economist print edition

How education and friends enrich

MONEY'S not everything, but can it buy you happiness? Governments of the rich countries that belong to the OECD in Paris worry about the links between economic growth and well-being. People may be richer, but does economic progress damage the ties that hold societies together? And are those ties essential to the acquisition of skills and attitudes that help an economy to flourish?

Such questions are fashionable with policymakers these days. In a report* published on May 10th, the OECD offers a few answers. The concept of human capital—of an individual's skills and knowledge—is familiar enough. But social capital—the networks and shared values that encourage social co-operation—is woollier and far harder to measure. It is also not obvious that "capital" is the right word for anything so nebulous.

However, the report argues that the two ideas may be closely linked—to each other and to well-being. Better education goes with better health: more educated people smoke less, take more exercise and are less likely to be overweight. (One finding suggests that people take 17 minutes more exercise a week for each extra year of schooling.) Education also seems to go with greater happiness, although social ties and good health are even more important. These, too, are connected: old people without friends or relatives appear to have a higher risk of developing dementia or Alzheimer's disease.

The report finds no evidence that greater prosperity has depleted "social capital reserves". Indeed, while some argue that social and civic involvement has declined in America, it appears to be stable or rising in most OECD countries, perhaps because higher education goes with more volunteering and social participation.

Plenty of unresolved points remain, especially about the direction of causality. Do healthy people have more friends, for instance, or do friends keep you healthy? A bigger issue, on which the report offers some tentative thoughts, is what governments can do. They have lots of ways to boost human capital, through education and training. But would a minister for social capital make life easier for families, volunteers and old folk—and how? He would need to be a good networker.

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* "The Well-Being of Nations: The Role of Human and Social Capital"

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Economics focus

On the move

May 10th 2001
From The Economist print edition

Economic analysis sheds light on the history of migration and on its future

DURING successive waves of globalisation in the three centuries leading up to the first world war, migration of labour was consistently one of the biggest drivers of economic change. Since 1945 the world has experienced a new era of accelerating globalisation, and the international movement of labour is proving once again to be of the greatest economic and social significance. That is so despite, this time, the efforts of rich-country governments to constrain migration, and despite some fundamental changes in its economic nature. As a new study* by Barry Chiswick of the University of Illinois at Chicago and Timothy Hatton of the University of Essex makes plain, it is economic factors that have been uppermost throughout the history of migration.

For many years after the discovery of America, the flow of free migrants from Europe was steady but quite small: transport costs were high, conditions harsh and the perils of migration great. In 1650 a free migrant's passage to North America cost nearly half a year's wages for a farm labourer in southern England. Indentured servitude developed as a way around this. Nonetheless, outright slavery predominated until the slave trade was stopped in the first half of the 19th century. By around 1800, North America and the Caribbean islands had received some 8m immigrants. Of these, about 7m were African slaves.

The first era of mass voluntary migration was between 1850 and 1913. Over 1m people a year were drawn to the new world by the turn of the 20th century. Growing prosperity, falling transport costs relative to wages and lower risk all pushed in the same direction.

Between 1914 and 1945, war, global depression and government policy served sharply to curb migration. During some years in the 1930s, people returning to Europe from the United States, even though comparatively few, actually outnumbered immigrants going the other way—a rare case for America of net emigration.

After the second world war the economics of migration reasserted itself. The cost of travel fell steeply. But now the pattern changed. Before long Europe declined as a source of immigration and grew as a destination. Emigration from developing countries expanded rapidly: incomes there rose enough to make emigration feasible, but not enough to make it pointless. Many governments began trying to control immigration. Numbers, legal and illegal, surged nonetheless, as economics had its way.

Winners and losers

Migration, it is safe to assume, is in the interests of (voluntary) migrants: they would not move otherwise. The evidence suggests that it is also very much in the overall interests of the receiving countries. But, as Mr Chiswick and Mr Hatton point out, there are losers in those countries. The increase in the supply of labour presses down on the wages of competing workers, at least in the first instance. (Later, as the stock of capital grows in response, that effect may be partially reversed.)

The economic conditions now seem propitious for an enormous further expansion of migration. On the face of it, this will be much like that of a century ago. As before, the main expansionary pressures are rising incomes in the rich countries and rising incomes in the poor ones. (This second point is often neglected: as poor countries get a little less poor, emigration tends to increase, because people acquire the means to move.) The study emphasises, however, two crucial differences between then and now.

One is that, in the first decade of the 20th century, the receiving countries needed lots of unskilled workers in industry and farming. In the first decade of the 21st century, in contrast, opportunities for unskilled workers are dwindling. In the United States, wages of unskilled workers are falling, in absolute as well as relative terms. The fall is enough to hurt the workers concerned, but not to deter new immigrants. Several studies suggest that immigration has made a perceptible contribution to this decline.

And the other big difference between now and a century ago? It is that the affected rich-country workers are in a stronger position to complain, and get something done. The most likely result is that a trend that is already well established (either as explicit policy or customary practice) will continue: countries will try to restrict the immigration of unskilled workers, giving preference to workers with skills.

This does help, in one way, quite apart from narrowing the rich countries' skills deficit: it eases the downward pressure on wages at the bottom. However, the idea has drawbacks too. It turns away many of the poorest would-be migrants, which is hard to justify in humanitarian terms. Also, it pushes others from this group into illegal immigration, which exposes them to dangers, makes assimilation more difficult and may even cause a stronger downward pull on the wages of some receiving-country low-skilled workers than would legal entry of the same migrants.

On top of all this is the skills drain from the sending countries. Already some of the world's poorest nations lose almost all the doctors they train to jobs in Europe or North America. Remittances offset some of that loss, but not all.

Today's migration, much more than the migration of old, poses some insoluble dilemmas. Regard for individual liberty—usually the best compass—argues for a more liberal immigration regime in the rich countries, and for unskilled migrants as well as skilled ones. With or without such a regime, more migrants are coming. And in either case, the question of compensation for the losers, in rich countries and poor countries alike, will demand some attention.

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* "International Migration and the Integration of Labour Markets". Forthcoming in an NBER conference volume, "Globalisation in Historical Perspective".

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Correction

May 10th 2001
From The Economist print edition

In our survey of global equity markets (May 5th) we mistakenly referred to the president of the Tokyo Stock Exchange as Matsuo Tsichida. His name is Masaaki Tsuchida.

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The Bank of Japan

Say please

May 10th 2001 | TOKYO
From The Economist print edition

The central bank's governor will go, but not quite yet

WILL he or won't he? Newspaper articles, obscure remarks from Japan's new finance minister and studied silence from the Bank of Japan (BOJ) are fanning gossip that the central bank's governor, Masaru Hayami, is about to resign. This is not the first time that such rumours have gone round: Mr Hayami's stubborn independence has made him enemies in government. This time, however, there is substance to the gossip.

Reuters

They want me to go?

Officially, Mr Hayami's term runs until March 2003. But, BOJ sources point out, he is 76 and feeling the strains of office, especially after bruising encounters with the ruling Liberal Democratic Party over monetary policy. More awkwardly, Mr Hayami and his eight-strong policy board parted company this spring, when most board members swung towards printing more money as a solution to Japan's deflation. Mr Hayami disagreed. The result is the unsatisfactory policy that the BOJ runs today. This formally meets demands that it should print money. But the amount that the BOJ pledges to print is so modest that policy has, in effect, changed little.

Mr Hayami knows that he has lost that battle. What worries him now is the choice of his successor. Although the central bank won its independence in 1998, it has no say in the appointment of its governor—nor of any other policy-board member, come to that. These decisions rest with the cabinet, subject to approval by parliament.

One organisation that would dearly love a say is the finance ministry, whose sway over the BOJ ended abruptly with the latter's independence. Now, mandarins at the ministry want to claw some of this influence back, by installing their man as governor. Three names, all old boys from the ministry, are said to be in the frame: Toyoo Gyohten, president of the Institute for International Monetary Affairs, a Bank of Tokyo-Mitsubishi think-tank; Sadaaki Hirasawa, president of the Bank of Yokohama; and, rather less seriously, Eisuke Sakakibara, once known as "Mr Yen".

It is this succession nightmare which Mr Hayami now seems to want to head off. Mr Hayami's choice as his successor is Toshihiko Fukui, a heavyweight economist and deputy governor of the BOJ until he resigned to atone for scandals in 1998. If Mr Fukui were to replace him, Mr Hayami is suggesting obliquely, he would be happy to resign early.

Alas, it all seems too oblique for Masajuro Shiokawa, Japan's new finance minister, who happily admits his ignorance of things financial. Asked by reporters about Mr Hayami's plans, the affable Mr Shiokawa seemed puzzled by the fuss. Mr Hayami may have to hang on a little longer, until the message gets through.

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American trade policy

The new cosmopolitan

May 10th 2001
From The Economist print edition

A worldly spin from George Bush

LAST month the hemisphere, this month the world. George Bush says he is sick of America "failing to make the case for trade" worldwide. Yet much of the blame is his. In the field of trade, the first part of Mr Bush's presidency has been notable for the flaunting of a planned Free Trade Agreement of the Americas (FTAA) above all else. It may not now be easy to push regional issues into the wings to make way for his new, world-girdling perspective.

This week, in a speech underscoring his attempts to get Congress to grant him "fast-track" authority to negotiate trade deals (so-called trade promotion authority, or TPA), Mr Bush called for America to lead the push to liberalise world trade. He bemoaned the fact that "free-trade agreements are being negotiated all over the world, and we're not a party to them". Yet in most cases, this stands to reason. Attending to the peccadillos of American trade diplomacy is not a priority for Singapore when it negotiates a trade deal with New Zealand—America has to wait its turn. And when the European Union signs a bilateral pact with Mexico, the whole idea is to leave America out.

So what is the president on about? It seems that America has been falling behind in the "competition of liberalisation" that Robert Zoellick, the president's trade representative, hoped to encourage by pursuing free trade on bilateral, regional and global levels, all at the same time. Certainly, Mr Bush wants to be seen to be pursuing more bilateral trade deals. He would like to complete pacts with Chile and Singapore, and talks optimistically about a controversial deal with Jordan. Yet he fails to mention the bilateral agreement with Vietnam, negotiated under Mr Clinton. The deal is ready to be signed into law, but Mr Bush plans to tie its ratification to approval of TPA, in an omnibus trade bill. In this case, free trading takes second place to horse-trading.

Mr Bush says he misses the leading role that America used to play in pushing broad trade liberalisation through the World Trade Organisation—a role that Mike Moore, the WTO's director-general, calls "absolutely vital to the success of the organisation and the global trading system." At least the Clinton administration tried, even if its attempt to launch a new round of world trade talks in Seattle in late-1999 was clumsy, and ended in failure.

Yet it was Mr Bush who, in his first 100 days, passed up America's chivvying role, as he concentrated on the FTAA to the exclusion of all else. Now he is short of time to straighten out the global side of his agenda. The WTO's members will decide by July whether they are ready to begin a new round in November.

Mr Bush will also have some juggling to do if he is to meet his goals for the Americas. On May 8th American, Canadian and Mexican officials met in Washington, DC, to discuss the future of the North American Free-Trade Agreement. At the top of the agenda was NAFTA's chapter 11, which allows foreign companies to sue when their subsidiaries apparently get second-class treatment behind domestic firms.

Many politicians and lobby groups think that chapter 11 goes too far. A Canadian firm is trying to use it to strike down a Californian regulation phasing out harmful fuel additives. Last week an American firm whose plans to build a toxic waste dump had been blocked used chapter 11 to win damages from Mexico. Canada's trade minister, Pierre Pettigrew, wants to see matters clarified, to stop decisions by courts and NAFTA tribunals that he says do not respect the intentions of the drafters. Also on the agenda is America's dispute with Canada over softwood lumber, and the status of Mexican workers in America. Other countries in the hemisphere, and beyond, will look to progress on NAFTA as a yardstick of what they can expect under the FTAA and in the WTO.

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Asian currencies

Helping themselves

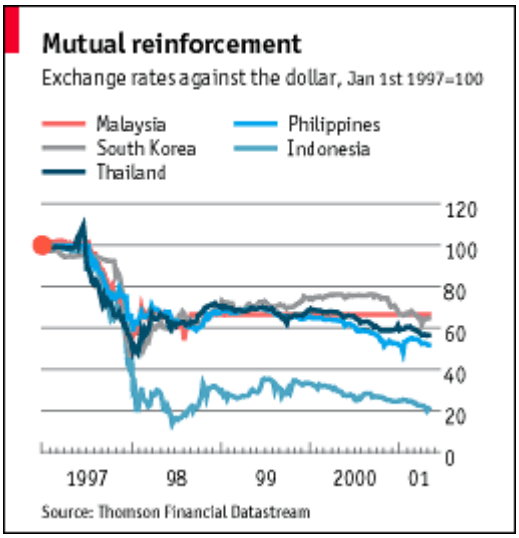
May 10th 2001
From The Economist print edition

Pacts in Asia are mainly for show

FINANCE officials around East Asia can boast at last that they are putting some flesh on the skeletal framework of regional financial co-operation. At this week's annual meetings of the Asian Development Bank in Honolulu, Japan announced three separate currency "swap arrangements", with South Korea, Malaysia and Thailand. These are to form part of a web of such agreements, intended to strengthen the region's defences against another onslaught on its currencies like that of 1997-98. At best, they are makeshift barricades; at worst, they may do more harm than good.

The announcement is certainly timely. A weak yen and sagging regional exports are reminiscent of the economic climate during the run-up to Asia's financial crisis. Across the region, currencies have been falling (see chart), with the lone exception of Malaysia's ringgit. It has been fixed against the dollar since September 1998, part of the country's heterodox approach to the crisis, which also involved spurning the help of the International Monetary Fund and imposing controls on capital that were lifted completely only this month. Foreign-exchange reserves have been shrinking of late, sparking speculation about a possible devaluation. The Malaysian authorities fiercely reject that idea.

The 1997-98 crisis tested, and found wanting, earlier "swaps" arrangements in Asia that were put in place after the Mexican peso debacle of 1994-95. Thailand called on such a facility when its currency, the baht, came under pressure in 1997. Far from intimidating speculators, the use of the swaps actually encouraged them. It was, rightly, taken as a sign of desperation.



Since then, governments and central banks in the region have been trying to come up with better ideas. Their talking-shops include the meetings of the ten-country Association of South-East Asian Nations (ASEAN) and the "ASEAN plus three" group (which adds China, Japan and South Korea to the list). Still, progress has been elusive. At one extreme, governments such as Malaysia's have hoped to turn criticism of the IMF's performance during the crisis in Thailand, Indonesia and South Korea into the foundations of a new Asian Monetary Fund that would dish money out with fewer pesky conditions. But other governments in the region—and the IMF itself—resisted, and little progress has been made beyond introducing a rudimentary system of mutual economic "surveillance", which is to be stepped up as part of the new swap deals.

The compromise at last year's ADB meeting, known as the "Chiang Mai Initiative" after the Thai town where it was held, has two aspects. A long-standing "ASEAN swap arrangement" is to be expanded to link all ten current ASEAN members, up from the previous five, and increased to $1 billion. Second is a planned network of bilateral swap agreements between individual ASEAN members and the "plus three" countries, with their huge reserves.

Earlier arrangements were designed merely to provide liquidity against collateral such as American Treasury bonds. The new bilateral deals are meant to swap hard-currency reserves for local currencies, for renewable six-month periods. They involve a real credit risk, if not a huge one. The amounts will vary, but Japan's agreement with Thailand, for example, runs to $3 billion; that with Malaysia is worth $1 billion. These are not sums that will terrify the currency markets.

They are large enough, though, to put the conditions that apply to disbursement under scrutiny. Just one-tenth of the swap funds will be available automatically. The rest will be subject to IMF conditions. That provides some comfort for lenders, but it leaves open the danger that swap funds will not be

available until too late, and that embarrassing wrangles will undermine market confidence.

Other changes in the past four years will thus be more important to regional financial health. Most of the countries that suffered then are now far less dependent on short-term loans from foreign banks. None, Malaysia aside, fixes its currency to a rigid but brittle peg. All have had large devaluations. The currencies are now less at risk from greedy speculators than from worries at home and abroad that not enough has been done to reform banking systems and corporate sectors. The swap arrangements provide a degree of psychological comfort, and a symbol of the region's willingness to co-operate. The best hope for these defences is that they should never actually be tested.

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Conservation in Brazil

Managing the rainforests

May 10th 2001 | ILHA DE MARAJO AND PARAGOMINAS
From The Economist print edition

"Sustainable management" could help to save the Amazonian rainforest without harming economic development

Get article background

EMPTY fields, as far as the eye can see, line the highway for most of the 300km (186 miles) from Belem, eastern Amazonia's main city, to the timber-cutting town of Paragominas. Once it was all forest, but since the 1970s most of the trees in a broad strip beside the road have been cut—not just to extract timber, but to clear pasture for cattle-raising, encouraged by subsidies and tax incentives. Now, though, most of the fields lie empty and are becoming overgrown with scrub. Cows are seen so infrequently that they might be imagined to be an endangered species.

The deforestation, mostly in the past 30 years, of 14% of the Brazilian part of Amazonia (about a third of the Amazon rainforest, the world's biggest, is over the border in other countries) has been as much an economic as an environmental disaster. The usable timber would be ripped out of a stretch of forest and the rest would then be burned, because the land would often be worth more when cleared than it had been as untouched forest. This value, however, was due partly to excessive optimism over the region's agricultural potential, and partly to a set of economically perverse incentives provided by the government. When farming was actually tried, it was frequently found to be unprofitable. And many did not even bother to try. Some chopped down the trees, grabbed the grants and then abandoned the land. Others used the "farms" they carved out of the jungle to disguise (highly taxed) profits on other businesses as farming profits (which used to be tax-free). As a result, there are now about 165,000km² of abandoned land in Brazilian Amazonia.

In recent years, the handouts and tax breaks that promoted deforestation have been reduced. As a result, good-quality forested land can be worth as much as 40% more than cleared land. A law passed in 1998 introduced stiff penalties for cutting trees without permission from Ibama, Brazil's environmental-protection agency. Though deforestation seems to have slowed since the mid-1990s (see chart), new figures due shortly will show that last year's deforestation was little different from that in 1998 and 1999, and about 1/2% of the forest was chopped.

Besides the cleared forest that shows up on the satellite pictures, each year a further, unmeasured amount (at least 10,000km², according to a study carried out in 1999) has its most valuable trees ripped out and is then abandoned. The big holes in forest cover caused by this reckless extraction make the area drier and thus vulnerable to fires. And if the forest does grow back, it grows differently, with fewer species, and choked by thick creepers that Amazonians call *cipo*. Though most of the rainforest remains intact—in contrast to the gloomiest predictions of the 1980s, which predicted it would be almost gone by now—it continues to be hacked away at a rate that will see it wiped out within the next 200 years.

A reduced impact

Fortunately, there are stronger grounds than ever for hoping that this will not happen. Belatedly, in parts

of Amazonia such as Paragominas, where much local forest is either razed or damaged, timber firms are coming to see unharmed woodland as an asset that, properly managed, can yield a good income forever. Their enthusiasm has been bolstered by studies showing that "sustainable management" of forests, also known as "reduced-impact logging" (RIL), can be more profitable than the reckless conventional methods of timber extraction. One such study, conducted near Paragominas, found that RIL was 12% cheaper than conventional logging.

In RIL schemes, the area to be exploited is divided into perhaps 30 blocks, one of which has timber extracted each year, before being left alone for 29 years. This is enough for the forest to regenerate successfully, because in addition to rotation, the schemes take care to leave the oldest specimens of the exploited species standing. As well as providing cover from the tropical sun, the spreading branches of these tall trees re-seed the block with new specimens. In haphazard, conventional logging, such trees are usually hacked down and, because their trunks are often hollow or damaged, then abandoned—a waste of time and money for the lumberjacks, as well as maiming the forest. RIL reduces the damage further by plotting the position of each block's valuable trees on a computer, which then works out the shortest set of access roads that needs to be carved out to remove the felled trees. Lumberjacks are also taught ways of felling trees that avoid damaging those around them.

With planning, the forest's animals, as well as its plants, can be preserved, according to Adalberto Verissimo of Imazon, a local environmental-research group. Amazonia's top predator, barring man, is the jaguar. This species needs about 500km² of forest to form a viable population of 50 cats. Though a typical managed-forestry scheme is only about a fifth of this size, by ensuring that at least "corridors" of forest are maintained between neighbouring schemes, the big cats and all the other animal species below them in the food chain can, it is hoped, survive reasonably well. It should, in other words, be possible for a stretch of forest to provide an endless supply of tropical hardwood but still suffer a minimal impact on its ecosystem.

The power of the consumer

Sustainable forestry of this sort has been talked about in Brazil since at least the 1980s, but started taking off only in the mid-1990s. Across the country, including areas outside Amazonia, there are now thought to be 10,000km² of forest under sustainable management. Foreign consumers of tropical hardwoods—furniture makers and sellers, for instance—are increasingly asking for timber that has been independently certified as coming from well-run RIL schemes, so that they can promise their environment-conscious customers that they are not contributing to the destruction of the rainforest.

The Rosa Group, a big timber firm in Paragominas, started using RIL in 1998, and is now applying for certification by the Forest Stewardship Council (FSC), an international agency that sets standards for sustainable forestry. Antonio Rosa, the firm's boss, sees certification as key to his plan to expand its exports to Europe and North America. Foreign buyers, he says, seem prepared to pay extra for certified timber, making it even more attractive.

But most timber felled in Amazonia is used in Brazil, so the growth of sustainable forestry—and the decline of reckless chopping—will depend on how quickly Brazilian consumers switch to demanding certified timber. There are signs that this is starting to happen. In 2000, 40 Brazilian firms, including Tok & Stok, a big furniture retailer, formed a "buyers' group" to coordinate their purchases of certified wood, and jointly pledged to stop using uncertified timber by 2005. By creating a growing market for certified timber, it is hoped, supply will grow too. Imazon is conducting what it believes is the first-ever study of who distributes and buys timber in Brazil, to suggest ways of accelerating the switch to sustainable forestry.

Since much of the rainforest is still untouched and unclaimed, and thus public property according to Brazil's constitution, the federal and state governments could accelerate the move to sustainability by declaring it all a national park and then licensing timber firms to run RIL schemes in selected parts of it. A study by Mr Verissimo and others for the environment ministry concluded that just 10% of the remaining forest, managed sustainably, could meet all the existing demand for tropical hardwood. Much of the rest might then be declared untouchable.

In practice, policing such a huge preservation area against illegal logging would be an immense task. A national park that existed only on paper would not be worthy of the name. And Ibama, whose job it would be to patrol this park, has a reputation for inefficiency and corruption. It seems to be improving, but slowly. Timber firms in Paragominas say the local branch that inspects them is now doing a reasonable job, but they complain of “unfair competition” from surrounding regions where the agency is ineffective.

Some environmentalists say the answer is to take the job away from Ibama (whose broad remit includes dealing with everything from oil slicks to urban noise) and create a specialised body similar to America’s Forestry Service. Raimundo Deusdara, an environment-ministry official responsible for forest preservation, agrees that the idea is worth considering. In the meantime, he hopes that a new environment tax, to be introduced soon, will at least double Ibama’s budget, and thus make it more effective.

Another hindrance to the effort to control illegal logging has been that, since Brazil lacks a central land register, it has been easy to steal publicly owned forest. Only now has the federal government launched a campaign to seize back the vast tracts of Amazonia that have been stolen over the years. A law creating a land register has been passed, and the government hopes the register will be compiled by 2003.

Combined with better land registration, improved satellite imaging should help to monitor, and thus prevent, deforestation. Brazil’s space-research agency, INPE, currently produces its deforestation figures annually, but the Chinese-Brazilian CBERS satellite it uses scans Amazonia once every 26 days, so it is studying whether it could produce figures more frequently. Mato Grosso state, which includes a small slice of Amazonian forest, is already doing this on its own. A state laboratory is downloading satellite images and comparing them with a computerised land register to spot breaches of the often-flouted national forest code, which allows landowners in Amazonia to deforest only 20% of their property, and even then, only with permission.

In theory, real-time detection of deforestation could be done for all of Amazonia, according to Thelma Krug of INPE, especially after the launch, due in 2004, of a Brazilian satellite that will provide images every two hours. Sivam, Brazil’s giant radar-surveillance system for Amazonia, is now being brought into service. Though its main role is in defence, and to monitor the traffic in illegal drugs, it could also be used to detect loggers’ activities. But collecting and processing such masses of data would be expensive. And, of course, it would only be worthwhile if there were an effective forest service which had enough wardens with boats, planes and helicopters to rush them to remote areas where illegal logging had been spotted.

Tales of the riverbank

Encouraging sustainable timber extraction, and suppressing illegal logging, are only part of what must be done to stop the rainforest being degraded and destroyed. The other big threat is population pressure. Last year’s census found that about 12m people live in Amazonia, and that the population there is increasing by 3.7% a year. So there is a growing need to find people ways of making a living without despoiling the forest.

This was one of the objectives of the Pilot Programme to Conserve the Brazilian Rain Forest, set up in 1992, with the promise of $350m from the Group of Seven rich countries—hence its nickname, PPG7. All sorts of projects were created to help forest dwellers make a living from such things as collecting fruits and plants. But, as an independent review concluded last year, progress has been very slow. Much of the $88m spent so far has been swallowed up by bureaucracy, and many projects have not got beyond being experiments (though PPG7 does pay for Mato Grosso’s satellite-based enforcement system, which has already resulted in the jailing of 50 landowners).

One reason for the poor results, the report concluded, is that the scheme has done little to involve the private sector in creating forest-friendly businesses. But, here and there, independently of the PPG7, this is beginning to happen. In the Ilha de Marajo, an island twice the size of Wales at the mouth of the Amazon, Muana Alimentos, a food-processing company, is working with the local authorities to persuade the growing numbers of *ribeirinhos* (riverbank dwellers) to cultivate the *acai* palms that grow abundantly in the swampy land around their wooden huts. The company wants to expand the supply of the two products it sells: palm heart, the soft inner stem at the tree top, from which the fronds sprout, which is pickled and used in salads and pies; and the pulp of the *acaí* fruit, which is served as a delicious sorbet

on Brazil's poshest beaches.

Arriving in the settlement of Piria, Georges Schnyder, director of Muana Alimentos, accompanies a state official on a boat trip to try to interest the *ribeirinhos* in taking a short course in cultivating the trees to maximise yields of fruit and palm hearts. "You could be earning 8,000 *reais* (about $4,000) a year from this plot," Mr Schnyder tells Raimundo and Rubens, a father and son who live nearby. The two smile politely but disbelievingly—incredulous that what is a small fortune by local standards might be within their grasp. The company already owns and tends its own plots of land on the island, but Mr Schnyder says he would rather leave the cultivation and processing to the locals and stick to being a distributor.

Like the lumberjacks in Paragominas, Mr Schnyder is seeking the FSC's certificate of sustainability, seeing it as a way to add value to his products. Despite the PPG7's poor progress, Mr Schnyder believes such schemes to find sustainable livings for forest dwellers can be made to work. But, he grumbles, environmental groups could do more to help: they seem keener on sitting in their offices writing damning reports than on setting up local branches in forest villages to foster sustainable development by offering training and advice.

Political pressure points

Politicians must change their ways too. Though many of the incentives that led to chopping have gone, some persist. Amazonia's state governors opposed the recent decision by Brazil's president, Fernando Henrique Cardoso, to abolish Sudam, a corruption-riddled Amazonian "development" agency, whose handouts have sponsored much futile forest clearance.

The military dictators who ran Brazil from 1964 to 1985 were obsessed with populating and developing Amazonia, convinced that otherwise another power might seize it. Such paranoia has died down (though many Amazonians believe that America is plotting to invade on the pretext of saving the trees) but Advance Brazil, the government's 776 billion *reais* economic-development plan, still assumes that Amazonia needs to be opened up with new roads and waterways. Yet a study published by William Laurence of the Smithsonian Tropical Research Institute, and his colleagues, in *Science* in January, argued that such transport links, when built near forests in the past, triggered massive deforestation. Extrapolating from past patterns to forecast the effects of the proposed roads and highways, the study said, at worst, only 5% of Amazonia might remain as pristine forest in 2020, with a further 24% being lightly degraded and the rest badly damaged or gone.

There are good reasons for hoping that things will not turn out so badly. Brazil's growing fiscal prudence may mean not all of Advance Brazil advances. It may also lead to further cuts in the remaining incentives to chop trees. Past deforestation may not be a guide to the future, because it was mostly in the drier fringes of Amazonia rather than the really rainy rainforest, where agriculture would be even harder. The government has stopped settling landless peasants in forested areas, which until recently had been a smaller but significant cause of deforestation. And the reaction in Brazil and around the world to the *Science* paper helped, by forcing the government to submit Advance Brazil to an independent environmental-impact assessment.

Dr Laurence agrees that things may not turn out as badly as the paper's bleakest prognostications. But, he argues, it is not so much Advance Brazil that threatens the forest as the thinking behind the project. It assumes that economic development depends on "extensifying", ie, extending the amount of land in economic use, rather than intensifying the use of land already exploited. Maybe so, says Raul Jungmann, Brazil's land-reform minister, but the trouble is that extensifying is cheaper and simpler than intensifying. If richer countries want the Amazon rainforest saved (and, he correctly points out, they are lecturing Brazil on preserving its forests after destroying much of their own and their colonies'), they could offer more technology and capital to intensify the return on Brazil's existing agricultural land.

Though economic development has often been depicted as the environment's enemy, the richer a country gets, the more its people tend to worry about environmental matters. It is encouraging that it was mainly Brazilian greens, not foreign ones, who successfully campaigned last year against a plot by the big landowners' lobby in Congress to weaken the forest code, and are mobilising against a similar attempt this year.

Brazil has already lost one tropical forest: the Mata Atlantica, which used to run all the way down the country's southern coast, but of which only 7% now remains, and that divided into small fragments. It is too early to guarantee the survival of the bigger, more famous one in Amazonia. Much more needs to be

done to stop it being eaten away by 1/2% or so each year. But its chances are improving, especially now it is increasingly being seen as a valuable economic asset, something that could produce returns forever.

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Detective fiction

Damn Yankees

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From The Economist print edition

Dennis Lehane and Laura Lippman are two new masters of an old craft

PEOPLE are calling Dennis Lehane names. "The hippest heir to Chandler and Hammett." "A newcomer to the pantheon of noir writers." "Stunningly good." His sixth novel, "Mystic River", has been his biggest commercial and critical success to date. It spent nine weeks near the top of the *New York Times* bestseller list earlier this year and has been praised for the way in which it blurs the line between straight genre fiction and literature.

Sigrid Estrada/Jim Burger

Mystic River
By Dennis Lehane

William Morrow; 401 pages; $25. Bantam; £9.99.

Buy it at
Amazon.com
Amazon.co.uk

The Sugar House
By Laura Lippman

William Morrow; 306 pages; $24. Orion; £9.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Lehane is a 35-year-old Bostonian with sparkling blue eyes and a fledgling goatee that looks out of place on his boyish face. His reputation was built on a series of hardboiled whodunits with arresting titles like "Darkness, Take My Hand" and "Gone, Baby, Gone". The setting is usually the same: the working-class neighbourhood of Dorchester, south Boston, where Mr Lehane grew up. Our guide through the urban jungle is a private eye, Patrick Kenzie, often accompanied by his wisecracking partner and on-again, off-again squeeze, Angie Gennaro. Theirs is a gloomy and violent world, to say the least.

"I think I'm a personal optimist but a global pessimist," Mr Lehane told *The Economist*. "I see the world as being very Hobbesian. Everything can be taken from you in a second. It hasn't happened to me, personally—which, given my Irish background, makes me constantly look over my shoulder. It can happen so fast, and so arbitrarily. When I was growing up, when violence happened, everything went from zero to 100 in a second."

There is relatively little on-page violence in "Mystic River", Mr Lehane's first non-series book. The worst of it is left to the reader's imagination. But the psychological consequences of violence, both for its victims and for those closest to them, are explored in greater depth than in any of Mr Lehane's previous novels. "With 'Mystic River' my big thing was: 'Whenever you want to go for the cheap thrill, don't. Find another way. And make the characters act like people, not like you need them to act'. So it was deliberately a much more leisurely-paced book. I became obsessed with small details. What's it like for a father to bury his daughter, or even, say, to bring her dress to the funeral home? What is that moment like?"

Early in the novel, two youngsters, Jimmy Marcus and Sean Devine, look on as a schoolmate, Dave Boyle, is abducted by two men pretending to be cops. After several days of unspeakable abuse, Dave manages to escape, but he is damaged for life by the experience. The boys subsequently drift apart. Years later, though, they are brought together once more when Jimmy's daughter is brutally murdered. Sean is the investigating officer—and Dave becomes his prime suspect.

"Mystic River" gives a vivid sense of what it's like to grow up in a close-knit urban community such as Mr Lehane's Dorchester. "The concept of the inner-city neighbourhood is a fascinating one to me. So much great stuff comes out of it. There's that moment near the end where they say to Jimmy, 'We'll save you a place'. And that is what's wonderful about a neighbourhood. The sense that people watch out for each other. But then there's a very ugly downside to that, particularly if you're an outsider, coming in, or if you don't conform or don't fit."

Throughout the book Mr Lehane moves confidently between characters, elaborating elements of the story

from different points of view. The shift from the first-person narration of the Kenzie-Gennaro novels to the third person in “Mystic River” was a crucial development, he says. “I tend to play a lot with voice and mood. I like each of my books to have a different feel. Certainly with ‘Mystic River’, voice was huge. I was leaving the first person, I was going into the third. I didn’t want there to be any similarities, beyond locale.”

The experiment has paid off. “Mystic River” is a compelling page-turner whose drama arises not so much from events as from the conflicting perceptions of the main players. Character, Mr Lehane insists, is, for him, all-important, as a reader and as a writer. “I love books that are brimming with storytelling. Plot’s not everything. Plot doesn’t make a great book. Nobody says, ‘Man, “Crime and Punishment”, that *plot*.’ I read because I’m fascinated by characters. Plot is just a way to explicate character.”

Mr Lehane wears the comparisons with Chandler and Hammett lightly. “I honestly believe that we’re in this amazing Renaissance now, in mystery fiction,” he enthuses. “There’s this great sense of, ‘Ah, shit, he just wrote a better book. Now I’ve got to go back to the drawing board.’ And I love that. I love the creative, healthy, happy competitiveness that’s going on in the genre at the moment. Everybody’s trying to transcend the last thing they did. And with ‘Mystic River’ I was swinging for the fences.”

Give my love to Baltimore

Laura Lippman is one of the most polished and consistently interesting writers of detective fiction in America today. She introduced Tess Monaghan, a sexy, sassy journalist-turned-sleuth, in “Baltimore Blues”, which appeared in 1997. Unlike her heroine, Miss Lippman has not abandoned journalism for the more erratic lifestyle of the private eye: she remains a full-time reporter at the *BaltimoreSun*. And her experience as a journalist has, it turns out, enriched her fiction in all kinds of interesting ways.

Ms Lippman traces the origins of “Baltimore Blues” back to a bad patch in the early 1990s when she was unhappy in her job. The paper she was on had been taken over by the *Sun* and her new editor was an insufferable pain in the backside. Worse, he openly criticised her journalism. Ms Lippman’s response was to write a novel that would reach a far wider audience. Let them be the judges, she thought.

“Baltimore Blues” was a hit, and a string of equally successful books followed: “Charm City”, “Butchers Hill” and “In Big Trouble”. Between them, Ms Lippman’s Tess Monaghan mysteries have won the Edgar, Agatha and Shamus awards, among others. “The Sugar House” is the fifth instalment in the series. It may be her most accomplished novel so far.

“When I started writing I knew I wasn’t going to have a lot of time to do research, with a day job,” Ms Lippman says. “So I decided to make use of what I already knew. I knew a lot about public records; I knew a lot about social services. I was the poverty reporter at the *Baltimore Sun* for a long time—I was the last poverty reporter at the *Sun*. The editors decided that poverty was really a downer. It wasn’t helping them to sell papers in the suburbs.”

Social and political concerns are at the centre of “The Sugar House”. At her father’s insistence, Tess takes on an unpromising case: a glue-sniffing teenager, Henry Dembrow, has been killed in prison and his elder sister wants to know why. First, though, Tess must identify the anonymous girl, or “Jane Doe”, whom Henry was convicted of murdering. Tess’s investigation takes her from inner-city dive bars to the drawing rooms of Maryland’s political powerbrokers.

“The Sugar House” is an unusual whodunit in that we learn who the killer is in the first few pages but discover the victim’s identity only much later. “I’m less interested in figuring out *who* did it than in figuring out *why* people do these things. I don’t think it’s a great shock to anyone when they find out how Jane Doe died. What’s more shocking is that someone sought to make political hay out of it.”

Reading Ms Lippman’s taut and elegantly constructed books one has no sense that she feels in any way limited by the conventions of the genre. On the contrary, they seem to provide a congenial framework within which she is free to write about whatever takes her fancy. “I like writing by the rules,” she admits. “I love detective novels and I’ve read them all my life...I thought I was going to be a tough, gritty dame. But when I sat down to write I realised that I’m not that type: I’m really interested in people and their relationships.”

Ms Lippman’s novels read like an ongoing love letter to Baltimore. Though not, strictly speaking, a Baltimorean—her parents moved there when she was six—she has an assured feel for the city, its

surprising diversity, its texture, what makes it tick. “I wish I were a native Baltimorean,” she says. “I blame my parents for not moving north sooner. But the fact is I’m not a native, and I’ll never pretend to be. I made Tess one and I envy her that.”

Fittingly, Ms Lippman’s next novel (coming in September) features another writer with strong links to Baltimore: Edgar Allan Poe. “Poe is buried here, and every year, on the day of his birth, a visitor arrives in the graveyard between the hours of midnight and 6am, and leaves three roses and a half-bottle of brandy. This has been going on now for over 50 years. There’s some evidence that at least three men have done it. Other than that, no one really knows who this is. I talked my way into the watch party last year, in 2000, and I was the person who spotted it happening. I made a deal with the head of the Poe Society that I would be anywhere between vague and deliberately misleading about what I saw that night. Which was fine. I wanted to write a book about what would happen if *two* men arrived—and one was shot and killed. That’s the set-up. It’s called ‘In a Strange City’.”

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Travels in Central Asia

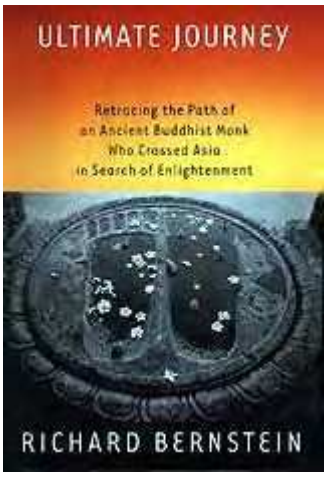
Monk on tour

May 10th 2001
From The Economist print edition

Ultimate Journey
By Richard Bernstein

Knopf; 366 pages; $26

Buy it at
Amazon.com
Amazon.co.uk



IN ITS long history, China has imported just two belief-systems: Buddhism, which changed the inner life of millions between the fourth and tenth centuries, and Marxism, which convulsed the country in the 20th century. Both imports were swiftly sinified and made to seem home-grown. The local inquisitiveness scarcely existed to follow the current of these beliefs back to their source. The great exception was a monk, Xuan Zang (Hsuan Tsang in the Wade-Giles transliteration used in this book), who defied an imperial edict to set out in 629 westward along the Silk Road, over the mountain passes of Central Asia, south to the kingdom of Gandhara (around Peshawar), which was responsible for spreading a Hellenised form of Buddhism beyond India, and to the Buddha's birthplace in India itself.

Xuan Zang undertook this journey—arduous enough today, but which took 16 years then—to bring the authentic documents of Buddhism back to China, hoping to give the practice there a purer, less bastardised form. His account, "The Great Tang Chronicles of the Western World", is known to nearly every schoolchild in China. Richard Bernstein, a reporter and book reviewer for the *New York Times* and once a Beijing-based correspondent, retraced Xuan Zang's steps in "Ultimate Journey". Where Mr Bernstein succeeds, as he travels from one ruin to the next, is in communicating how Xuan Zang himself must have looked upon these glories as if they were already from a golden, bygone age.

These passages are delights. But, unfortunately, Xuan Zang is not the only traveller in this book. Responding perhaps to fashionable pressure to put himself into the story, Mr Bernstein writes almost as much about Mr Bernstein as about the monk. The jacket does not even mention Xuan Zang by name—imagine a Chinese life of St Augustine identified only as the Bishop of Hippo or the man who gave us mortal sin! The accounts of Buddhism are interesting enough. But did we need riffs on the life of the author, a wavering Jewish atheist: his upbringing on a Connecticut chicken farm, his loneliness as a foreign correspondent who is non-committal in love, his romance with a Chinese dancer he met at a film in New York and his wish to settle down and have children? Too much of Mr Bernstein's travels read like prescription therapy for mid-life malaise.

As a travel writer in the third world, Mr Bernstein is honest, if unoriginal, about hygiene panics and sloshy bowels. His constant worry, on the other hand, that Chinese officials in Xinjiang might find out who he is becomes a literary flaw. His attempts to evade recognition, and his alarm at how Americans might be treated following NATO's bombing of the Chinese embassy in Belgrade in May 1999, form part of the book's structure. Yet those fears are overblown, as journalists based in China ought to have told him. And Mr Bernstein is simply wrong about being the first journalist in Kashgar for years.

To make up for that, Mr Bernstein writes in a felicitous style, enlivened at times with a telling metaphor or a sharpish insight. There are two types of country, he says: one where cars stop for people, and the other where people stop for cars. In China, cars have right of way, because they are bigger. In China this is true of many things.

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Theatre

Nice costumes, though

May 10th 2001
From The Economist print edition

How John Barton's Homeric epic has fared after its many travels

"TANTALUS", a nine-part, 12-hour stage work, arrived at London's Barbican earlier this month, after a tour through the British provinces. It is almost 15 years since John Barton, who is best known for his work as a director with the Royal Shakespeare Company, first began this epic and nearly a year since he fell out with Sir Peter Hall over its cutting, rewriting and directing. (Mr Barton was in no position to block the production, though the two no longer talk.) And it is over six months since the plays first opened in Denver, Colorado. They were wafted into realisation on the wings of a $10m lift-off from a Coloradan angel in the form of the Denver Centre for the Performing Arts.

Tragedy—or Grand Guignol?

Well, is "Tantalus" a masterpiece? Briefly, no. It is big, entertaining, amusing, spectacular and shallow. The sets, designed by Dionysis Fotopoulos, are amazing. But within these intriguing frames the actual plays have no depth. There are no sustained issues, no insights into the human condition; "Tantalus" never disturbs, or makes the neck tingle, or fills the eyes with tears. Questions of ultimate causation, motivation and inevitability are raised, but in a desultory way.

Mr Barton's scripts have a rather interesting thread running through about the nature and truth of drama, but this seems to have got lost in the rewriting. How far, then, is it like or not like a classical Greek drama? In one crucial respect it is very comparable. The fifth-century dramatists turned for their myths to a wide variety of versions that were in circulation, but especially to a patched sequence of epic poems that were known as the Cycle. These purported to tell everything from the creation of the world to the end of the age of heroes, and especially to fill in the stories surrounding the "Iliad" and "Odyssey". Mr Barton has turned to the Cycle and to other later versions to make his own patchwork of stories around the Trojan war. And, like the Greeks, especially Euripides, he has gone for some of the little-known, quirky variants, and—again like them—he has not hesitated to make up stories of his own.

The serious resemblances stop there. True, there is a sort of chorus, a group of sunbathing girls, and the characters wear masks. But why? Sir Peter has repeatedly pronounced that the Greek mask works as a kind of discipline or container, within which ideas and emotions that would be unbearable otherwise can be expressed. The inapplicability of this doctrine to the whimsy and burlesque of "Tantalus" is epitomised in a scene where King Agamemnon and the prophetess Cassandra find fellow feeling and make love. Not only do they strip off all their clothes, but also their masks. This says clearly that the masks are a barrier concealing the true self, a deeply un-Greek notion.

A foyer-warning that special effects will be used serves to alert us to an episode that is about as far from classical tragedy as can be. After the Greek forces have taken Troy, the persistently jaunty, tongue-in-cheek tone is suddenly shattered. Faceless SS-type soldiers violently strip the women of the chorus and brand them with red-hot irons. The fault is not just that the episode is sadistic and voyeuristic: it has no sustained resonance within the sequence—it is gratuitous. The serious violence in Greek tragedy, of course, happens off stage.

And yet, for all its banality, this is a highly entertaining production, which keeps the majority of its audience amused for hour after hour. This is partly because there are plenty of jokes and deflating turns of tone at the expense of clichéd notions of the ancient Greeks and their frivolous gods. More creditably, there is much excellent acting, particularly from Greg Hicks, both as a brooding, Brutus-like Agamemnon, and as a rather sinister, sensuous Priam, who towers over everyone on stilts. Mr Hicks's eloquent body language and his crisp control of verbal registers really make the mask work as an intensifier. But, more than any other factor, "Tantalus" is visually rich and unpredictable. The costumes as well as the sets of

Mr Fotopoulos are superb, colourful, surprising, full of echoes, yet not dragged down by any particular time or place. Apparently he used over 600 yards of fabric in making the costumes. Here, at least, the Denver millions were well spent.

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American politics

Inside straight

May 10th 2001
From The Economist print edition

IN THE crude and easy-going manner that used to pass as folksy among elected politicians in America's deep South, Edwin Edwards liked to say that he would lose office only if found in bed with "a dead girl or a live boy". Mr Edwards served four terms as governor of Louisiana between 1972 and 1996, but it was gambling, not under-age sex, that finished him. He is now facing a lengthy term in federal prison, a virtual life sentence, his lawyers argue, since their client is 73 years old.

AP

Gambling got its nails into him

In this impeccably reported and often hilarious account, Tyler Bridges, a Pulitzer-winning journalist who covered New Orleans for the *Times-Picayune* newspaper there, picks apart Mr Edwards's antics, ending in his conviction last year for extorting $3m from gambling interests.

Louisiana has a reputation for throwing up populist rascals who are proud to be known as rotten-government types—so long as the rot is spread around. The Kingfish, Huey Long, a New-Deal-era governor, was a master of the style, followed closely by his younger brother, Earl. "Don't write anything you can phone. Don't phone anything you can talk," Earl famously advised, "Don't talk anything you can whisper. Don't whisper anything you can smile. Don't smile anything you can nod. Don't nod anything you can wink."

Mr Edwards was almost as canny as this famous pair. "The ringmaster of the Circus Maximus," one opponent called him. Certainly he had a rare combination of charm, intelligence and political acumen. Like the tele-evangelist Jimmy Swaggart, another of Louisiana's fallen idols, Mr Edwards was the son of sharecroppers, raised among blacks and French-speaking Cajuns. He built his support on both groups. Cajuns adored him for speaking their peculiar form of French, the blacks all the more for destroying David Duke, a Ku Klux Klansman, in one gubernatorial race.

The oil bust of the early 1980s knocked Louisiana flat, much as it did neighbouring Texas. But whereas the Texan economy diversified into high-tech, Louisiana turned to gambling, with disastrous results: politicians were bought off by companies looking for licences for land and riverboat casinos, and the state became split between the pro-gambling populism of Mr Edwards and the anti-gambling sentiments of the good government crowd, most of them Republicans.

One argument was about New Orleans. Should it have a casino? And how large? "Saying no to casinos," thundered a good-government editorial from the *Times-Picayune,* "is saying yes to our city and its future." Hoteliers battled against a development in the style of Las Vegas, afraid it would take away their regular tourist business, and an extravagant plan to build a fake waterway lined with palm trees beside the Mississippi was scrapped.

But Mr Edwards got his way in the end. He was behind a rigged vote in the state legislature which allowed the casinos in; his son was soon made a consultant to gambling concerns. A cavernous casino was built in New Orleans. But it and dozens of other neon-lit establishments across the state have done little to raise up the underclass: 32% of Louisianans now live in poverty, compared with a quarter when Mr Edwards first became governor.

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New fiction

White on black

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From The Economist print edition

REMEMBERING and imagining are kindred activities. In Greek mythology, Mnemosyne, the mother of the muses, was also the goddess of memory. Rachel Seiffert is a young German novelist, far removed in time from the years she describes. But she represents a new generation of our, as it seems, never-to-be-completed reflections on the Third Reich. Her generation was not in it itself, nor were her parents adult then. So it is the grandparents the young have to get back to, through oral testimony, archival research and the act of fiction—through memory and imagination.

In a dark room a picture develops, an image becomes clear. That happens in the course of the three stories which make up Rachel Seiffert's excellent novel. The first concerns Helmut, a young photographer in Hitler's Germany. His parents are good Nazis, and he would be an active participant himself but a physical disability debars him. He photographs obsessively, from the odd angle of the crippled outsider, and documents Berlin, its atrocities and its destruction. But he remains inwardly blind to his own pictures; they do not enlighten or alter him, and he remains complicit in the spirit if not in the deed, to the bitter end. Lore, the heroine—truly a heroic child—in the second story, has parents quite deeply implicated in the evil; and the nature of that evil, in particular the camps, begins to be revealed to her during her epic trek with her young siblings through the ruins of Germany in the spring and summer of 1945. Micha, in the third story, set in Germany now, ruthlessly insists on knowing what his grandfather did with the Waffen-SS in Belarus. He travels to the place itself where, receiving the confession of a local collaborator, he gets as near to the truth as he ever will. Micha's partner at home is a Turkish immigrant; he is anxious that their girl-child, born as the story ends, shall not have any German name. All three of Ms Seiffert's stories, but particularly this last, circle the terrible possibility that for some evildoing there can be no atonement.

The collaborator in Belarus, after 17 years in a Russian labour camp, can still say: "I think there is no punishment for what I did." And Micha thinks: "Years and generations. No way to change it. Never enough sadness and no forgiveness." This novel is a very readable, imaginative attempt to hold essential truths in living memory.

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20th-century history

Why Germany made it global

May 10th 2001
From The Economist print edition

How the European conflicts of 1914 became a genuine world war

"DEFINITIVE", proclaims the blurb accompanying the first volume of Hew Strachan's magnificent new history of the first world war, and definitive it is. There will be two further volumes, each covering, like this one, around 18 months to two years of the war. The result will be a scholarly triumph. In a field cluttered with competitors Mr Strachan will be lengths ahead.

The book is set out on the most ambitious scale. One of its most original features is the treatment of the war in global, rather than European, terms. This was not just a war for the European heartland, but a war fought across most of the world, from the naval engagements at Coronel and the Falklands in South America, to the Japanese occupation of the Pacific islands of the German empire; from present-day Namibia to Afghanistan. The war was a world war—a term used by the Germans from 1914, but only in common parlance after it was over—because the European powers that fought it were the heart of worldwide empires, which were rallied or bullied to support the mother country.

There was nothing new in this, of course. European wars had also been imperial conflicts for at least three centuries. What is new here is Mr Strachan's insistence that the global aspect of the war was really a German initiative. Far from limiting its war effort to fending off the encircling allied powers of Russia, France and Britain, German diplomats and soldiers tried to foment popular anti-colonial revolution in India and Egypt, to create a widespread Islamic *jihad* against the colonial rulers, to disrupt the allies' global communications. Britain and France, on the other hand, were primarily interested in one thing only: defeating Germany and her feebler ally, Austria-Hungary, in Europe.

Nevertheless, this does not mean that Germany started the war. In what will no doubt be the most controversial argument in this first volume, Mr Strachan makes a convincing case for the outbreak of war in 1914 as a product of blunder and delusion, not of deliberate German aggression. What brought Europe to war was not the great alliance blocks, nor the Europe-wide arms race (one aspect of the story that is curiously neglected here), but the last gasp of the old Eastern Question, which had plagued European diplomacy for a century. The problem of how to cope with emerging nationalism in the Balkans faced by the multinational empires on all sides (Austria-Hungary, Russia and Ottoman Turkey) was the nub of the problem. Austrian assertiveness as Ottoman influence declined was compounded with Russian determination to resist any encroachment that threatened her historic interests in the Black Sea region.

Since 1870 south-east Europe had been the only site of European wars—1877-78, 1912, 1913. It was host to numerous crises. The alliance system had never been designed to cope with the growing instability of the region, and when by the merest chance a Bosnian terrorist, Gavrilo Princip, was standing in the right place on the pavement in Sarajevo to assassinate Archduke Franz Ferdinand on that fateful day in June 1914, a confrontation was triggered between Austria and Serbia for which no one had a prepared script. The hope in Berlin was for a short, sharp war between the two, while Germany kept the other powers at bay. Only when it dawned on German leaders that Russia and France were prepared to make the Serb issue a showdown did they scramble to mobilise. From then on Mr Strachan is at one with A.J.P. Taylor: timetables imposed their awful imperatives on the generals. War could have been averted, not by German restraint, but only by a humiliating Austrian withdrawal—never the Habsburg way.

War had not been unexpected, but the occasion and timing were. In a brilliant *tour d'horizon*, Mr Strachan examines the ideas and images that fed into the crises of 1914. War was not caused by the exaggerated fatalism and sentimentality of European cultural pessimism, but it was conditioned by it. Once war had broken out, leaders and led alike found ways of justifying and legitimising what had shortly before been unthinkable. Young writers, bored with the bourgeois age, quickly constructed new values. The Hungarian Aladar Schöpflin described how solders were "going into the totality of life". War was seen as redeeming, reinvigorating, necessary. What are called here "the ideas of 1914" were expressed and

communicated in a matter of weeks. The diplomatic powder-keg was not all that exploded in July 1914.

Because this was not a war carefully prepared and planned, things quickly went wrong. Chapters on the western and eastern fronts chart the slow descent into mutual slaughter and operational stalemate. Trench systems grew on both fronts as commanders struggled to come to terms with the reality that modern weaponry rendered the offensive too costly to sustain. Very soon the shells began to run out on all sides; a little later the money to pay for them ran out too. The discussion of war finance and industrial mobilisation already shows the shape of eventual defeat for the central powers. Germany and Austria-Hungary simply did not have the wealth and access to (mainly) American money of their western enemies. Neither organised their industrial war effort soon enough or comprehensively enough to cope with a prolonged war of attrition. This conclusion should not blunt the appetite for volumes two and three. Germany, as Niall Ferguson's "The Pity of War" (Penguin; 1998) showed, lasted the full four years of war despite these disabilities.

Inevitably, even in a three-volume history, some elements get less space than they deserve. There is too little sense of what life was like for the ordinary soldier caught up in the most colossal of conflicts, subjected after decades of peace to an environment for which nothing could have prepared him. Some sense of what it meant to kill and risk being killed, captured memorably in Joanna Bourke's "An Intimate History of Killing" (Basic Books and Granta Books; 1999), would make the book all the richer. The actors in the drama are more wooden than they deserve, even the kaiser—every pen-portraitist's dream. There are also simple problems of production. There are shockingly many typographical mistakes; the maps are short of the detailed geography of the war itself. The index does not give the rank of soldiers, who are indistinguishable from civilians. Glaring factual errors are few, but for the paperback edition Hitler must be put where he belongs, celebrating the coming of war with crowds in Munich, not Vienna. It was service in the German army, not the Austrian, that prepared him for his calling, to turn the Great War into the first world war by dint of starting a second.

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Li Yuqin

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From The Economist print edition

Li Yuqin, wife of the last emperor of China, died on April 27th, aged 73

AS FAR as is known, Pu Yi, the last emperor of China, had five wives. For anyone fascinated by the turbulent history of China in the 20th century Li Yuqin's life is the most interesting of the five.

Pu Yi's own story was told in "The Last Emperor", a well-received film made in 1987. He had become emperor at the age of three but was deposed three years later in 1912 when the Manchu dynasty that had ruled China for nearly 300 years was swept from power. In the 1930s Pu Yi was made a sort of emperor again by the Japanese who had occupied Manchuria, a region in north-east China they called Manchukuo. Making him emperor of Manchukuo, they believed, would help to give their occupation legitimacy. They gave Pu Yi a state visit to Tokyo, and provided him with a palace in Manchukuo, an allowance and a Japanese military uniform, and set out to find him a wife suitable for his imperial status.

He had been married at 16 to two women, as was the royal tradition, a senior wife and a junior. In western eyes the "junior wife" was a concubine, but in Chinese law she had the rights of any spouse. She soon became fed up with Pu Yi, who was apparently impotent, and was granted a divorce. Pu Yi's next bride died suddenly, perhaps, rumours say, poisoned by the Japanese. The senior wife was ill with opium addiction. For wife number four Pu Yi's overlords now wanted him to marry a nice Japanese girl. They showed him some photographs and asked him to pick. He did not like any of them. Finally, they compromised. They showed him a picture of Li Yuqin. She was Chinese, a waiter's daughter affectionately known as Jade Lute, but had been educated at a Japanese school in Manchuria. He said yes. A bottle of Japanese champagne was opened. Love of a sort was in the air.

The palace schoolroom

Miss Li was then 16 and the emperor 37. Perhaps today this would seem no great age for, say, a much-married Hollywood romeo to look for a teenager to see him through a mid-life crisis. But to her he seemed ancient. She at first declined to have sex with him, and was mildly surprised that he did not press the matter. She said she wanted to continue her studies, and a schoolroom was made available in the palace for her and her Japanese tutor. She seemed to see Pu Yi more as a father, although rather a fierce one who would occasionally beat her. He made her write out a list of rules and punishments, stipulating what would happen if she were disobedient. Nevertheless, later recalling her life in the palace, Miss Li insisted that he was "very kind".

The Japanese had seen Miss Li as a spy to report any disloyal utterings by the emperor. She was able to tell them that he was an unenthusiastic convert to Shintoism. He retained his Buddhist beliefs to the extent that he forbade his servants to kill flies. She confirmed that he was impotent, and possibly homosexual. However, the religious conscience of Pu Yi, and even his dismal sexual history, became increasingly unimportant for the Japanese as it became clear they were losing the Pacific war. When the end came in 1945 Pu Yi attempted to flee to Japan but was seized by the Russians and returned to China. Miss Li and others of the court were abandoned. In his book "The Puppet Emperor" Brian Power describes the scene. "Jade Lute kept crying out, 'What are we to do? The guerrillas will kill us.' " It does not sound brave. But she was still only 18.

Although both Miss Li and her husband escaped the guerrillas, both were arrested by the new Communist Party government. Miss Li was put to work in a wool mill and told to study the works of Marx and Lenin. The party was pleased with her progress and she was given a job in a library. Eventually she got on to the lowest rung of the party ladder as a local government officer. Pu Yi was jailed, but although condemned by the Chinese as a "war criminal" he too was treated relatively lightly. After serving nine

years and converting to Communism, Pu Yi was pardoned and got a job as a gardener. While he was in prison Miss Li wrote to him regularly about the need for them both to repent their crimes and work for the party to make the world perfect, which must have pleased the prison censor.

Occasionally she visited him in jail. He always seemed surprised that his “little schoolgirl” had become a sturdy member of the proletariat. On one visit, curiously, a room with a double bed had been prepared for her and Pu Yi. Miss Li was told that the party wanted them to be reconciled. She declined the offer of Communist marriage counselling and shortly after she, like an earlier wife, was granted a divorce. She married again, a television engineer, and they had a son.

Pu Yi also remarried. His fifth wife was a nurse in a Beijing hospital. She said that he was an innocent unable to do even the simplest household chores, an odd claim about someone who had had to labour in a prison camp. He was a wily one, the last emperor. Jade Lute was artful, too, evading his clutches, going along with the Japanese or the teachings of Marx according to the needs of the times. The Abbé de Sieyès was asked what he had done during the terror that followed the French revolution. “I survived,” he said.

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Overview

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From The Economist print edition

America's labour market generated more than its share of bad news this week. Unemployment rose in April, for the second month in a row, to 4.5%—the highest since October 1998. For the first time in six years, workers' productivity actually fell in the first quarter, at an annual rate of 0.1%, after an average growth rate of 4.3% in 2000. These figures were far worse than the markets had expected. Investors were also disappointed when Cisco, a maker of Internet equipment, reported a net loss for the third quarter. The Nasdaq Composite dipped by 2.9% during the week, but the Dow Jones was buffered by an optimistic long-term outlook from General Electric. The dollar rose by 0.5% in trade-weighted terms.

A sharp economic slowdown may be on the cards for **Germany**. Industrial production fell by 3.7% in March alone, dragged down by a drop of 13.6% in new construction. Year-on-year growth in industrial output dropped to 1.4%. German unemployment rose for the fourth month in a row, but the jobless rate remained unchanged at 9.3%.

The **euro area** as a whole brought better tidings: in March unemployment fell slightly, to 8.4%, and annual producer-price inflation slowed to 4.1%. Although the European Central Bank, unlike all other big central banks, has not cut interest rates this year, broad-money-supply growth has quickened, to 5.0% in the year to March. The euro depreciated by 0.4% in trade-weighted terms.

Japan's Nikkei index hit a new high for the year on May 7th, but then fell by 3.1% after an outline of his economic reforms from the new prime minister, Junichiro Koizumi, failed to live up to expectations. A poor performance by American high-tech shares also hurt the Nikkei. The yen rose by 0.2% in trade-weighted terms.

Australia managed to trim its trade deficit even further, to $2.7 billion in the 12 months to March. The deficit has narrowed by more than two-thirds from its level of a year ago.

Our table on trade, exchange rates and budgets shows new **budget balance** estimates for 2001, from the OECD's latest *Economic Outlook*.

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Output, demand and jobs

May 10th 2001
From The Economist print edition

Output, demand and jobs

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	− 2.2	+ 2.1 Q4	+ 2.1	+ 4.0	+ 3.1 Q4*	− 0.1 Q4	6.8 Apr	6.6
Austria	+ 1.7	+ 2.6 Q4	+ 2.2	+ 2.5	+ 7.0 Feb*	+ 4.9 Jan	3.7 Mar	3.9
Belgium	+ 4.9	+ 3.1 Q4	+ 2.6	+ 2.6	+ 5.7 Mar*	− 2.8 Feb	10.2 Apr*	10.5
Britain	+ 1.4	+ 2.5 Q1	+ 2.3	+ 2.8	+ 1.0 Feb	+ 4.8 Mar	5.2 Feb‡	5.8
Canada	+ 2.6	+ 4.0 Q4	+ 2.1	+ 3.2	+ 1.5 Feb	+ 3.9 Jan	7.0 Mar	6.8
Denmark	+ 4.9	+ 1.1 Q4	+ 1.9	+ 2.2	+ 5.2 Mar	− 0.6 Feb	5.4 Mar	5.3
France	+ 4.0	+ 3.0 Q4	+ 2.6	+ 2.7	+ 2.4 Feb	+ 0.1 Feb	8.7 Mar	10.0
Germany	+ 0.8	+ 1.9 Q4	+ 1.9	+ 2.5	+ 1.4 Mar	− 6.7 Feb	9.3 Apr	9.6
Italy	+ 3.2	+ 2.7 Q4	+ 2.2	+ 2.4	− 1.5 Feb	− 0.5 Feb	9.9 Jan	11.2
Japan	+ 3.0	+ 2.8 Q4	+ 0.6	+ 1.3	− 2.9 Mar	+ 1.8 Jan	4.7 Mar	4.8
Netherlands	+ 3.8	+ 2.8 Q4	+ 2.8	+ 2.9	+ 2.0 Mar	+ 2.5 Jan	2.2 Mar§	2.9
Spain	+ 2.9	+ 3.7 Q4	+ 2.8	+ 3.1	− 3.5 Feb	na	13.5 Mar	14.8
Sweden	+ 2.4	+ 2.6 Q4	+ 2.6	+ 2.9	+ 6.2 Feb	+ 2.6 Feb	3.9 Mar*	5.1
Switzerland	+ 1.8	+ 2.5 Q4	+ 1.9	+ 2.2	+ 5.0 Q4*	− 0.6 Feb	1.8 Mar*	2.3
United States	+ 2.0	+ 2.7 Q1	+ 1.5	+ 3.0	+ 0.8 Mar	+ 1.8 Mar	4.5 Apr	4.0
Euro area	+ 2.8	+ 3.0 Q4	+ 2.3	+ 2.6	+ 3.8 Feb	+ 1.2 Feb	8.4 Mar	9.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 3.0	+ 5.5 Q4	na	na	+ 6.8 Feb	+ 3.8 Jan	9.6 Mar*	11.2
Greece	na	+ 2.5 2000	na	na	+ 3.1 Nov	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	+ 4.2 1999	na	1.3 Jan	1.5
Ireland	na	+11.0 Q3	na	na	+34.1 Feb*	+ 4.0 Feb	3.6 Mar	4.3
Luxembourg	na	+ 8.5 2000	na	na	+ 0.2 Feb*	+ 9.4 Nov	2.6 Mar	2.7
New Zealand	+ 2.2	+ 1.6 Q4	na	na	+ 0.9 Q4*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	− 0.9 Feb	+ 0.8 Mar	3.7 Q1	3.9
Portugal	+ 5.1	+ 3.4 Q3	na	na	+ 3.6 Feb*	+ 4.6 Jan	3.8 Q4	4.1

*Not seasonally adjusted.. ‡Dec-Feb; claimant count rate 3.3% in March. §Jan-Mar.

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Prices and wages

May 10th 2001
From The Economist print edition

Prices and wages

% change at annual rate

	Consumer prices*			The Economist poll consumer prices forecast		Producer prices*			Wages/earnings		
	1 year		year ago	2001	2002	1 year		year ago	1 year		year ago
Australia	+ 6.0	Q1	+ 2.8	+ 3.6	+ 2.3	+ 5.2	Q1	+ 5.6	+ 5.1	Q4	+ 1.6
Austria	+ 2.7	Mar	+ 1.9	+ 1.8	+ 1.4	+ 2.9	Apr	+ 2.6	+ 2.5	Mar	+ 2.1
Belgium	+ 2.8	Apr	+ 2.0	+ 1.9	+ 1.7	+ 4.3	Feb	+ 7.9	+ 1.9	Q1	+ 3.3
Britain	+ 2.3	Mar	+ 2.6	+ 1.9	+ 2.3	+ 0.8	Mar	+ 2.4	+ 5.0	Feb	+ 6.0
Canada	+ 2.5	Mar	+ 3.0	+ 2.3	+ 2.1	+ 2.4	mar	+ 5.8	− 0.9	Feb	+ 2.8
Denmark	+ 2.3	Mar	+ 3.2	+ 2.2	+ 2.2	+ 3.0	Mar	+ 6.0	+ 3.8	Q4	+ 4.1
France	+ 1.3	Mar	+ 1.5	+ 1.3	+ 1.4	+ 2.8	Mar	+ 4.5	+ 5.0	Q4	+ 3.4
Germany	+ 2.8	Apr	+ 1.5	+ 2.0	+ 1.4	+ 3.3	Mar	+ 5.3	+ 2.3	Feb*	+ 1.5
Italy	+ 3.1	Apr	+ 2.3	+ 2.4	+ 1.9	+ 4.1	Mar	+ 5.5	+ 2.0	Mar*	+ 2.1
Japan	− 0.4	Mar	− 0.5	− 0.4	− 0.3	+ 1.3	Apr	− 0.4	+ 0.5	Mar	+ 2.1
Netherlands	+ 4.6	Mar	+ 1.9	+ 3.9	+ 2.2	+ 5.1	Mar	+ 8.0	+ 2.9	Mar	+ 3.4
Spain	+ 3.9	Mar	+ 2.9	+ 3.1	+ 2.6	+ 3.2	Mar	+ 5.7	+ 2.2	Q4	+ 2.4
Sweden	+ 1.9	Mar	+ 1.4	+ 1.7	+ 1.7	+ 2.6	Mar	+ 4.1	+ 1.5	Feb*	+ 3.4
Switzerland	+ 1.2	Apr	+ 1.4	+ 1.2	+ 1.2	+ 0.5	Mar	+ 2.9	+ 0.2	1999	+ 0.7
United States	+ 2.9	Mar	+ 3.8	+ 2.9	+ 2.3	+ 3.1	Mar	+ 4.3	+ 4.3	Apr	+ 3.8
Euro area	+ 2.6	Mar	+ 2.1	+ 2.1	+ 1.6	+ 4.1	Mar	+ 4.9	+ 2.4	Q4	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.9	Mar	+ 3.1	na	na	+ 3.2	Mar	+ 8.2	+ 4.3	Q4*	+ 3.5
Greece	+ 3.0	Mar	+ 3.1	na	na	+ 4.8	Feb	+ 7.2	na		na
Iceland	+ 4.5	Apr	+ 6.0	na	na	+ 4.2	April	+ 3.7	+ 9.2	Mar	+ 4.6
Ireland	+ 5.4	Mar	+ 4.6	na	na	+ 3.1	Mar	+ 5.2	+ 7.4	Q3*	+ 6.6
Luxembourg	+ 2.8	Apr	+ 2.7	na	na	+ 4.2	Feb	+ 2.0	+ 8.4	Oct*	+ 1.7
New Zealand	+ 3.1	Q1	+ 1.5	na	na	+10.2	Q4	+ 2.8	+ 1.6	Q4	+ 1.5
Norway	+ 3.7	Mar	+ 2.5	na	na	− 0.1	Mar	+ 8.4	+ 4.3	Q4*	+ 4.0
Portugal	+ 5.1	Mar	+ 1.5	na	na	+ 4.7	Mar	+18.6	+ 2.2	Feb*	+ 2.8

*Not seasonally adjusted.

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Labour disputes

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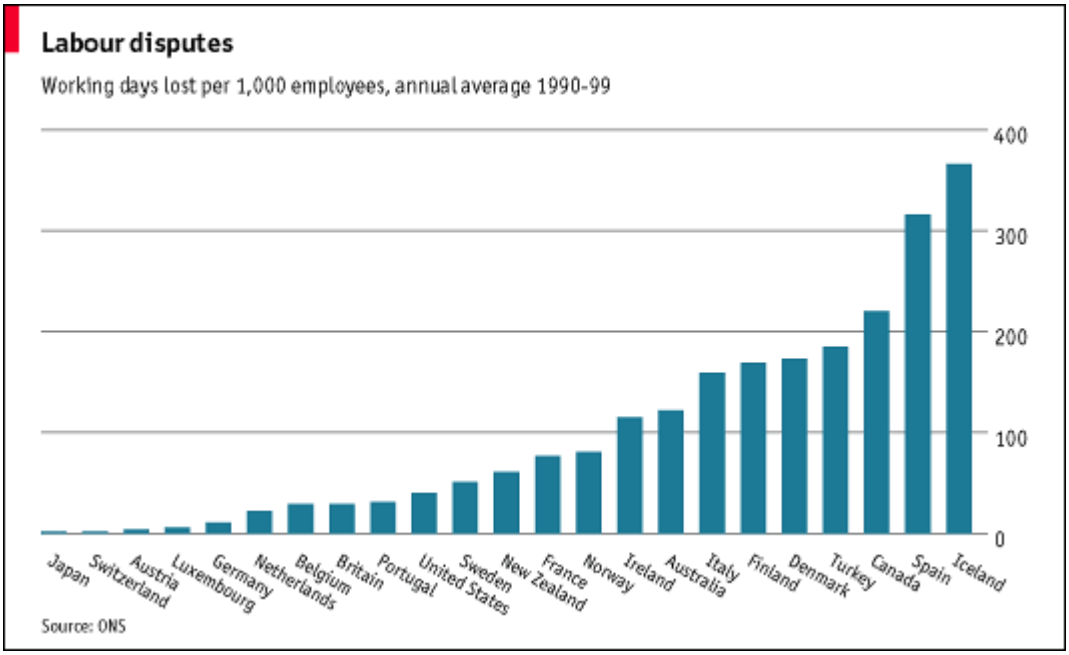
During the 1990s, rich countries lost an annual average of 59 working days per 1,000 employees in labour disputes, according to a report by Britain's Office for National Statistics. The average strike rate for the OECD fell by almost a third between the first and second half of the decade. It plunged by nearly a half across the EU over the period.



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Non-food agricultural commodity prices

May 10th 2001
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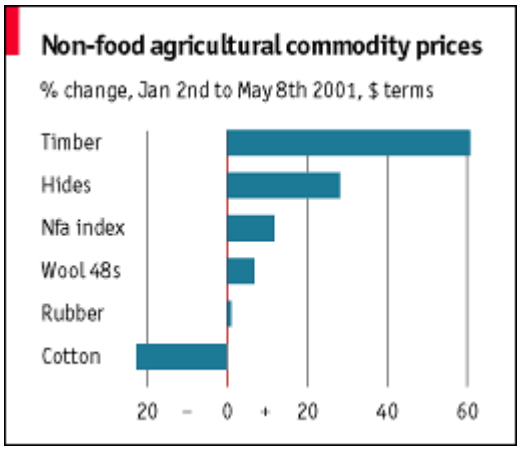
Although the overall dollar commodity price index has drifted down, the index of non-food agricultural prices has gained 12% this year. America's timber stocks are low, and Canada has cut shipments to head off import sanctions. Fashion fads and foot-and-mouth disease have boosted hides.



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Stockmarkets

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Stockmarkets

Market indices

	May 9th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,286.9	3,312.1	3,094.3	+ 0.5	- 1.3	+ 4.2	- 2.0
Austria (ATX)	1,195.7	1,220.9	1,052.2	- 2.1	-31.2	+11.4	+ 4.9
Belgium (Bel 20)	2,778.3	3,030.4	2,591.6	- 2.2	-24.5	- 8.1	-13.5
Britain (FTSE 100)	5,893.7	6,334.5	5,314.8	- 0.2	-15.0	- 5.3	- 9.8
Canada (Toronto Composite)	8,070.6	9,348.4	7,415.5	+ 0.7	-29.1	- 9.7	-11.9
Denmark (Copenhagen SE)	882.9	1,002.1	818.3	+ 1.4	-15.0	- 2.6	- 8.3
France (SBF 250)	3,525.0	3,820.2	3,107.9	- 1.1	-19.7	- 6.5	-12.0
(CAC 40)	5,492.1	5,998.5	4,824.8	- 1.5	-20.7	- 7.3	-12.7
Germany (Xetra DAX)	6,063.9	6,795.1	5,388.0	- 2.4	-24.8	- 5.7	-11.2
Italy (BCI)	1,734.7	1,948.4	1,609.6	- 3.2	-20.5	- 9.5	-14.8
Japan (Nikkei 225)	14,084.9	14,529.4	11,819.7	- 2.3	-63.8	+ 2.2	- 4.5
(Topix)	1,392.3	1,441.0	1,162.0	- 2.2	-51.7	+ 8.5	+ 1.4
Netherlands (EOE)	577.3	642.3	518.3	- 3.5	-17.7	- 9.5	-14.7
Spain (Madrid SE)	926.5	963.9	818.6	+ 0.2	-19.2	+ 5.2	- 0.9
Sweden (Affarsvarlden Gen)	245.9	292.7	217.2	- 2.3	-38.5	-11.3	-18.8
Switzerland (Swiss Market)	7,373.4	8,135.4	6,574.0	nil	-12.3	- 9.4	-15.7
United States (DJIA)	10,866.5	10,983.6	9,389.5	- 0.1	- 7.3	+ 0.7	+ 0.7
(S&P 500)	1,255.5	1,373.7	1,103.3	- 0.9	-17.8	- 4.9	- 4.9
(Nasdaq Comp)	2,156.3	2,859.2	1,638.8	- 2.9	-57.3	-12.7	-12.7
Europe (FTSE Eurotop 300) *	1,432.1	1,545.5	1,279.0	- 1.1	-16.0	- 6.6	-12.1
Euro area (FTSE Ebloc 100) *	1,295.1	1,404.1	1,143.9	- 1.9	-16.5	- 7.0	-12.4
World (MSCI) †	1,137.1	1,249.2	1,014.6	- 1.4	-21.5	na	- 7.4
World bond market (Salomon) ‡	432.9	447.8	427.5	+ 0.2	- 5.9	na	- 2.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

May 10th 2001
From The Economist print edition

Trade, exchange rates and budgets

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† May 9th	Exchange rate trade-weighted† year ago	Currency units per $ May 9th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	− 2.7	− 15.1	Q4	-2.9	-3.2	73.2	76.6	1.91	1.72	2.72	1.69	1.57	0.1
Austria	− 4.6	− 4.7	Feb	-2.5	-2.0	100.2	99.7	15.6	15.1	22.1	13.8	12.7	-0.6
Belgium	+ 13.6	+ 11.6	Dec	4.2	4.3	98.8	98.2	45.6	44.3	64.9	40.3	37.4	0.7
Britain	− 43.3	− 24.5	Q4	-2.1	-2.0	105.5	109.0	0.70	0.66	–	0.62	0.58	1.2
Canada	+ 39.3	+ 12.7	Q4	1.2	1.0	78.1	79.6	1.54	1.49	2.19	1.36	1.26	2.6
Denmark	+ 5.5	+ 3.6	Feb	1.4	1.4	101.6	100.0	8.44	8.18	12.0	7.46	6.91	2.9
France	+ 1.2	+ 22.6	Jan	1.6	1.6	101.5	100.8	7.42	7.20	10.5	6.56	6.07	-0.5
Germany	+ 54.4	− 25.7	Mar	-1.4	-1.1	98.4	97.5	2.21	2.15	3.15	1.96	1.81	-1.7
Italy	+ 1.6	− 5.8	Jan	-0.3	nil	72.4	72.0	2,190	2,125	3,114	1,936	1,793	-1.3
Japan	+108.6	+112.1	Feb	2.2	2.2	138.6	151.7	122	109	174	108	–	-6.3
Netherlands	+ 16.0	+ 13.7	Q4	4.1	4.0	97.7	96.9	2.49	2.42	3.54	2.20	2.04	1.3
Spain	− 39.5	− 16.9	Jan	-2.9	-2.6	74.1	73.6	188	183	268	166	154	nil
Sweden	+ 11.0	+ 5.1	Feb	2.3	2.2	76.6	84.5	10.30	9.02	14.6	9.11	8.44	3.6
Switzerland	− 0.5	+ 31.1	Q4	11.8	11.4	106.8	104.7	1.74	1.71	2.48	1.54	1.43	na
United States	−453.9	−434.9	Q4	-4.3	-4.0	119.1	112.2	–	–	1.42	0.88	0.82	2.1
Euro area	− 9.7	− 28.9	Feb	-0.3	-0.1	78.4	77.7	1.13	1.10	1.61	–	0.93	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 13.1	+ 9.6	Feb	na	na	77.9	76.2	6.73	6.53	9.57	5.95	5.51	5.3
Greece	− 7.5	− 8.1	Dec	na	na	57.4	57.7	385	369	547	340	315	nil
Iceland	− 0.5	− 0.9	Q4	na	na	na	na	97.1	76.2	138	85.8	79.5	2.4
Ireland	+ 26.9	− 0.7	Q4	na	na	87.1	85.9	1.12	0.86	1.59	0.99	0.92	4.5
Luxembourg	− 2.4	+ 1.6	Q4	na	na	98.8	98.2	45.6	44.3	64.8	40.3	37.3	3.6
New Zealand	− 0.4	− 2.7	Q4	na	na	80.7	85.3	2.36	2.09	3.36	2.09	1.93	1.0
Norway	+ 25.9	+ 23.0	Feb	na	na	94.7	90.7	9.11	9.02	13.0	8.05	7.46	15.3
Portugal	− 14.7	− 10.4	Jan	na	na	89.2	88.5	227	220	322	201	186	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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Commodity prices

May 10th 2001
From The Economist print edition

The Economist commodity price index

1995=100

	May 1st	May 8th*	% change on one month	% change on one year
Dollar index				
All items	70.8	71.6	+ 3.2	– 3.9
Food	68.2	68.5	+ 2.2	– 6.4
Industrials				
All	74.4	75.7	+ 4.4	– 0.6
Nfa†	72.2	74.4	+ 6.6	+ 2.3
Metals	76.2	76.8	+ 2.6	– 2.8
Sterling index				
All items	78.0	78.8	+ 3.6	+ 2.8
Euro index				
All items	104.5	106.3	+ 3.8	– 2.0
Yen index				
All items	92.0	92.8	+ 1.0	+ 6.8
Gold				
$ per oz	263.95	265.35	+ 3.2	– 4.3
West Texas Intermediate				
$ per barrel	28.35	27.63	– 2.2	– 3.0

* Provisional. † Non-food agriculturals.

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Money and interest rates

May 10th 2001
From The Economist print edition

Money and interest rates

	Money supply* % change on year ago			Interest rates % p.a. (May 9th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+14.1	+ 7.5	Mar	4.77	6.29	4.57	5.72	6.53	7.03
Britain	+ 8.3	+ 8.4	Mar	5.19	6.19	4.86	4.92	5.30	6.51
Canada	+12.9	+ 5.6	Mar	4.30	5.66	4.67	5.66	6.25	7.21
Denmark	– 2.2	– 6.5	Mar	5.22	4.52	4.92	5.15	5.64	7.12
Japan	+ 6.0	+ 2.7	Apr	0.02	0.03	0.05	1.27	1.71	0.64
Sweden	+ 5.0	+ 1.4	Mar	4.00	4.01	4.25	4.99	5.34	5.10
Switzerland	– 3.9	+ 1.1	Mar	3.19	3.12	2.96	3.31	3.96	4.12
United States	– 0.2	+ 9.8	Mar	3.95	6.52	4.07	5.17	6.45	7.13
Euro area†	+ 2.1	+ 5.0	Mar	4.79	4.30	4.42	4.87	5.27	5.64

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.72%, Japan No.229 1.25%. Central bank rates: US fed funds 4.50%, ECB refinancing 4.75%, BOJ overnight call 0.01%, BOE repo 5.50%.
Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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Overview

May 10th 2001
From The Economist print edition

Consumer prices continued to fall in **Argentina** in the year to April—the second straight year of deflation. The country's 12-month trade surplus narrowed slightly in March, to $1.5 billion. **Turkey's** inflation rate jumped to 48.3% in the year to April, as the impact of its devaluation started to feed through into prices. In the past two months alone, prices have risen by 17%.

This week we add two **financial indices** for emerging economies to our Financial markets table: for shares, Morgan Stanley Capital International's Emerging Markets Free index; and for returns on bonds, J.P. Morgan Chase's EMBI+.

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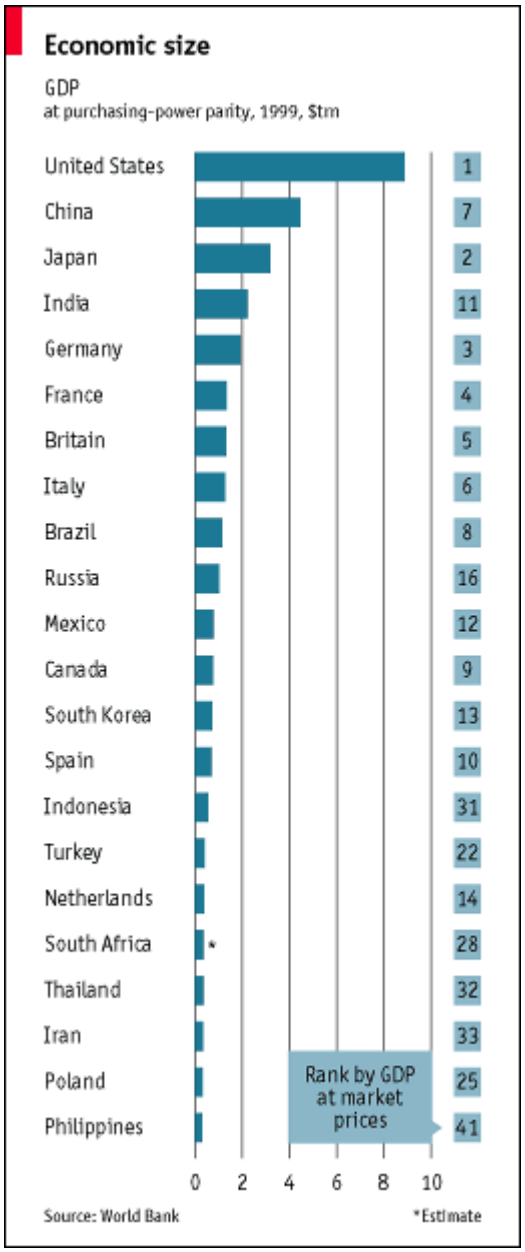
Economic size

May 10th 2001
From The Economist print edition

The simplest way of comparing the size of economies is to convert GDP into a common currency, using market exchange rates. However, this neglects differences in relative prices: non-tradables are usually cheaper in poor countries than in rich ones. Adjusting for differences in purchasing power, poor countries have relatively bigger GDPs.



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Financial markets

May 10th 2001
From The Economist print edition

Financial markets

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 9th		Dec 31st 2000	
	May 9th	year ago	May 9th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.8	na	2,226.3	+0.5	+1.5	+1.5
Hong Kong	7.80	7.79	11.1	3.89	13,585.1	−1.7	−10.0	−10.0
India	46.8	44.1	66.6	7.71	3,386.6	−4.3	−14.7	−15.0
Indonesia	11,075	8,175	15,748	16.30	372.1	+2.6	−10.6	−21.9
Malaysia	3.80	3.80	5.40	3.30	572.9	−6.3	−15.7	−15.7
Philippines	50.7	41.4	72.0	12.31	1,441.8	+0.4	−3.5	−4.8
Singapore	1.82	1.73	2.59	2.38	1,682.3	−3.2	−12.7	−16.9
South Korea	1,302	1,109	1,851	5.89	578.8	−0.8	+14.7	+11.5
Taiwan	32.9	30.7	46.7	4.40	5,232.6	−1.3	+10.3	+11.0
Thailand	45.6	38.6	64.8	2.50	311.7	+4.1	+15.8	+10.3
Argentina	1.00	1.00	1.42	13.50	431.3	−0.5	+3.4	+3.3
Brazil	2.26	1.82	3.21	16.29	14,779.0	−0.8	−5.3	−18.2
Chile	604	526	859	3.61*	5,160.3	+1.3	+6.0	+0.6
Colombia	2,361	2,020	3,357	12.50	850.4	+3.8	+19.3	+13.0
Mexico	9.22	9.58	13.1	12.94	6,106.4	+0.1	+8.0	+12.5
Peru	3.61	3.51	5.1	12.91	1,231.8	+2.2	+1.9	−0.4
Venezuela	713	677	1,014	10.55	7,421.0	−1.3	+9.2	+7.2
Egypt	3.89	3.44	5.53	9.10	6,427.2	+2.4	−16.1	−16.0
Israel	4.13	4.12	5.88	5.25	413.3	−2.6	−16.4	−18.3
South Africa	7.94	7.11	11.3	10.60	8,925.7	−0.5	+7.2	+2.2
Turkey	1,152,500	613,820	1,638,740	72.00	12,276.3	+2.2	+30.1	−24.3
Czech Republic	38.9	40.7	55.4	5.02	411.7	−0.8	−14.0	−16.8
Hungary	292	283	416	11.35	6,877.7	−1.2	−12.4	−15.4
Poland	4.0	4.4	5.6	17.26	14,639.0	−3.9	−18.0	−14.4
Russia	29	28	41	25.00	195.0†**	+7.9	+37.6	+36.1
EMF (MSCI)‡	1.00	1.00	1.42	na	328.3	−0.8	−1.6	−1.6
EMBI+§	1.00	1.00	1.42	na	208.0	+1.9	+3.0	+3.0

*Inflation adjusted. †In dollar terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **May 8th.

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Economy

May 10th 2001
From The Economist print edition

Economy

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q1	+12.1	Mar	+ 0.8	Mar†	+23.7	Mar	+15.7	1999	178.0	Feb
Hong Kong	+ 6.8	Q4	– 0.2	Q4	– 1.3	Mar	–11.6	Mar	+ 8.8	Q4	114.6	Mar
India	+ 6.0	Q2	+ 0.6	Feb	+ 2.5	Mar	– 6.3	Mar	– 5.4	Q4	39.5	Mar
Indonesia	+ 5.2	Q4	+ 4.5	Q4‡	+10.5	Apr	+26.9	Mar	+ 5.5	Q3	22.3	Feb
Malaysia	+ 6.5	Q4	+ 0.5	Mar	+ 1.5	Mar	+15.3	Mar	+ 9.7	Q3	26.8	Mar
Philippines	+ 3.6	Q4	– 3.0	Feb	+ 6.7	Apr	+ 7.2	Feb	+ 9.4	Jan	12.2	Feb
Singapore	+ 4.6	Q1	+ 6.4	Mar	+ 1.7	Mar	+ 3.8	Mar	+21.8	Q4	80.2	Feb
South Korea	+ 4.6	Q4	+ 6.2	Mar	+ 5.3	Apr	+14.4	Apr	+12.8	Mar	94.4	Mar
Taiwan	+ 4.1	Q4	– 4.4	Mar	+ 0.3	Apr	+10.6	Apr	+ 9.6	Q4	110.1	Feb
Thailand	+ 3.1	Q4	+ 2.4	Feb	+ 2.6	Apr	+ 3.7	Mar	+ 7.3	Mar	31.7	Mar
Argentina	– 2.0	Q4	+ 0.5	Mar	– 0.2	Apr	+ 1.5	Mar	– 9.4	Q4	21.9	Mar
Brazil	+ 4.4	Q4	+ 1.5	Feb	+ 6.3	Mar	– 1.4	Apr	–27.0	Mar	35.1	Feb
Chile	+ 4.5	Q4	– 1.7	Mar	+ 3.5	Apr	+ 1.1	Mar	– 1.0	Q4	14.5	Mar
Colombia	+ 2.1	Q4	+ 1.5	Feb	+ 8.0	Apr	+ 1.3	Feb	– 0.1	Q4	9.3	Mar
Mexico	+ 5.1	Q4	– 3.7	Feb	+ 7.1	Apr	– 9.0	Mar	–17.7	Q4	40.2	Mar
Peru	– 2.5	Feb	+ 0.2	Jan	+ 2.7	Apr	– 0.4	Feb	– 1.7	Q4	8.2	Feb
Venezuela	+ 5.6	Q4	na		+12.1	Apr	+ 7.2	Nov	+13.4	Q4	12.0	Mar
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.6	Jan	–10.4	Q4	– 0.8	Q4	12.9	Jan
Israel	+ 3.0	Q4	+ 0.3	Feb	+ 0.7	Mar	– 7.2	Mar	– 0.7	Q3	23.9	Mar
South Africa	+ 3.3	Q4	+ 1.8	Mar	+ 7.4	Mar	+ 3.6	Mar	– 0.5	Q4	6.2	Feb
Turkey	+ 8.3	Q4	– 5.2	Feb	+48.3	Apr	–27.0	Feb	–10.2	Jan	18.6	Mar
Czech Republic	+ 3.9	Q4	+ 4.1	Mar	+ 4.1	Mar	– 3.5	Mar	– 2.3	Q4	12.8	Mar
Hungary	+ 4.2	Q4	+ 5.3	Mar	+10.5	Mar	– 2.4	Mar	– 1.7	Mar	10.7	Mar
Poland	+ 2.4	Q4	+ 2.8	Mar	+ 6.2	Mar	–10.3	Mar	– 9.0	Mar	27.1	Mar
Russia	+ 6.8	Q4	+ 3.6	Mar	+23.8	Mar	+60.9	Mar	+46.4	Q4	25.9	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.9	1999†	+ 7.9	Oct	+ 4.2	Mar	– 1.9	Jan	– 2.5	1999	1.1	Jan
Saudi Arabia	+ 0.4	1999	na		– 1.3	Dec	+24.9	1999	+ 0.4	1999	17.1	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Text refers only to the first 25 countries listed

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